

# Implications Fraud Diamond in Fraudulent Financial Statements on Property, Real Estate and Building Construction Industries

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## Article Info

### Article history:

Received 01, 11, 2024  
Revised 01, 26, 2024  
Accepted 01, 29, 2024

### Keywords:

Fraud Diamond  
Fraudulent  
Financial  
Statement



## ABSTRACT

Fraudulent financial statements involve intentional actions of manipulating or hiding information in financial reports to deceive users. Understanding the factors behind such fraud can be explored through the Diamond Scheme Theory, consists of four materials: opportunity, rationalization, ability, and pressure. The aim of this research analyze the impact of each component of the Fraud Diamond on fraudulent financial statements. The quantitative research methodology focuses on industries in the real estate, construction and property sectors listed on the Indonesia Stock Exchange starting 2020 to 2022. The sample includes 69 companies selected through purposive sampling. Utilizing multiple linear regression analysis using SPSS 26 is employed for analysis. The study results reveal that, individually, only the capability variable within the Fraud Diamond has a significant negative impact on fraudulent financial statements. Pressure, opportunity, and rationalization variables do not show a significant influence. Additionally, when considered collectively, there is no discernible impact of the Fraud Diamond components on fraudulent financial statements.

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DOI: <https://doi.org/10.33050/atm.v8i1.2228>

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## 1. INTRODUCTION

The COVID-19 pandemic start in 2020, has triggered a worldwide economic recession. The virus's swift transmission across nations has led to a global economic shrinkage. Numerous countries have seen their economies contract due to a severe decrease in economic activities. Indonesia is among the nations significantly impacted by the virus. Consequently, the Indonesian government has implemented various measures to control the spread of COVID-19 among its citizens. These measures include the imposition of social restrictions, quarantine protocols, and localized lockdowns [1]. These measures have unfortunately led to economic instability and market uncertainty, resulting in many businesses witnessing a drop in revenue due to a slump in the demand for goods and services. [2] asserts that the general purpose of a company is to generate revenue to maintain business sustainability and ensure optimal financial performance, as reflected in the data presented in financial statements. Therefore, it is crucial for companies to ensure the accuracy of financial reports, providing a clear overview for monitoring financial performance. According to [3], financial statements serve as a management accountability tool to various stakeholders, including creditors, shareholders, investors, government, and the public.

In the midst of the economic downturn triggered by the COVID-19 pandemic, companies are competing to enhance their profitability to ensure business sustainability. However, in such challenging situations, factors contributing to fraudulent practices emerge, where companies may be tempted to undertake unethical actions to avoid a negative image in the eyes of investors. According to [4], various factors, such as conflicts of interest between management and investors, and insufficient internal controls, can facilitate fraudulent activities. Therefore, companies need to ensure effective supervision and robust internal controls to reduce the fraud risk.

Association of Certified Fraud Examiners conducted an analysis of 2,110 fraud cases worldwide during the period from January 2020 to 2021. This analysis substantiates that fraud is a frequently occurring crime. The results of this analysis are subsequently published in the Report to the Nation (RTTN), serving as information regarding the development of fraud cases across various countries.

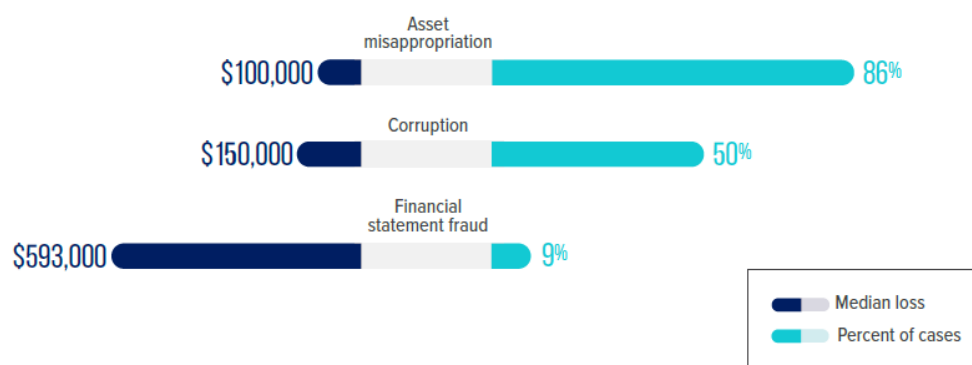


Figure 1. Fraud Case Category

Figure 1 depicts the percentage of global fraud cases surveyed by [5], Sorted into three sets: Embezzlement, dishonest practices, and manipulated financial reporting. The survey findings indicate that asset misappropriation is the most prevalent type of fraud, constituting 86% of the cases. Following that, corruption cases make up 50%, while fraudulent financial statements only contribute to 9%. Despite fraudulent financial statements occurring in smaller numbers compared to other types of fraud, this category has a significantly detrimental impact. This is evident from the average loss incurred, amounting to \$593,000, which is considerably higher Relative to other forms of deceit.

Based on the survey conducted by [5], there is speculation that the lack of systems and procedures for detecting fraudulent financial statements needs to be addressed to maintain public trust. Therefore, early detection of fraudulent financial statements is crucial to prevent similar cases. However, identifying fraudulent financial statements is challenging [6]. Edwin H. Sutherland, an American sociologist and criminologist, is renowned for his contributions to studying and developing the theory of criminal behavior, particularly white-collar crime. According to [7], white-collar crime involves illegal or unethical actions committed by individuals or organizations in the business or professional sector with high social and economic status, one of which is fraud.

Sutherland's contributions to understanding fraud have laid a crucial foundation for comprehending the motivations, factors, and preventive strategies against fraudulent activities. In 1953, Dr. Donald Cressey expanded on this work, identifying factors contributing to fraudulent actions through the development of the fraud triangle, consisting of three components: opportunity, rationalization, ability, and pressure. In 2004, Wolfe and Hermanson further evolved the fraud triangle by introducing an additional influencing component, capability, forming what is now known as the fraud diamond [8]. Consequently, the fraud diamond serves as a relevant framework for analyzing the factors contributing to Deceptive financial reports. This perspective is Backed by research performed by [9], which reveals that management engaging in fraudulent financial statements is influenced by various internal factors and company conditions that create motivation for such actions. Therefore, the fraud diamond is considered more appropriate for identifying fraudulent financial

reports resulting from internal factors within the company, as it can be directly scrutinized within the corporate setting.

Within the borders of Indonesia, several examples of fraudulent financial statement cases that occur. State-Owned Enterprises (BUMN) companies, such as PT. Waskita Karya Tbk., which operates in the construction services sector. [10] stated that in 2009, the CEO of PT. Waskita Karya Tbk., M. Choliq, discovered the presence of overstated profit manipulation carried out by directors over the period from 2004 to 2007. This profit manipulation led to an overstatement of net profit of approximately Rp 400 billion. Additionally, PT. Waskita Karya Tbk. also engaged in markup and inflation of assets involving 3 directors and 2 Public Accounting Firms (KAP). Based on the description above, cases of fraudulent financial statements are highly detrimental to companies. Therefore, preventive measures need to be taken by detecting such actions.

## **2. THE COMPREHENSIVE THEORETICAL BASIC**

### **2.1.1 Agency Theory**

The agency theory was first proposed by [11], explaining the relationship between an individual or group acting on behalf of another (agent) and the one providing the authorization (principal). In the agency theory, agents and principals have different goals, where agents tend to act in their own interests while principals seek to maximize profits or desired outcomes. The problem that arises in agency theory is when the manager (agent) does not have 100% ownership of the company's shares, so the manager may prioritize personal interests and be less effective in making financial decisions. The agency theory emphasizes the importance of separating the functions between company managers and shareholders. This is implemented to attain a more effective and efficient performance by delegating the company's management to an independent entity. However, this policy also has negative impacts when there is a mismatch of goals between the company's principal and agent, as fundamentally, individuals behave according to their own desires.

In a conflict of interest situation, [12] argue that management as an agent will face various pressures to enhance the company's performance to gain appreciation from shareholders as principals. The study states that management will make every effort to improve the company's performance with the hope that it can be rationalized as a positive action for the company. This is done with the aim of meeting the expectations of principals and gaining recognition for their efforts in improving the company's performance. According to [13], individuals with broad capabilities and access within a company will have a higher opportunity to commit fraud. For instance, a financial manager or financial director with the authority to present financial reports may unethically manipulate accounting figures for personal gain or the interests of the represented company. This can be detrimental to shareholders and other stakeholders. Thus, management may easily enrich themselves rather than prioritizing common interests.

### **2.1.2 Fraud Theory**

Theory of fraud has undergone significant development since its inception. The history of the use of this term is quite extensive and cannot be attributed to a single individual or specific discovery. However, an American sociologist and criminologist named Edwin H. Sutherland studied and developed the concept of White Collar Crime in 1940. According to [7], White Collar Crime refers to unlawful actions aimed at gaining profit, one of which is fraudulent activities. There are two types of errors recognized according to [14], namely errors and irregularities. Errors are unintentional actions that result in technical mistakes such as calculation errors. On the other hand, irregularities are intentional errors committed by management or company employees, leading to material misstatements (fraud). The Audit Standard (SA) 240 also distinguishes between errors and fraud based on the underlying actions that result from intentional or unintentional misrepresentations.

### **2.1.3 Fraudulent Financial Statement**

Based on the classification of fraud, [15]state that fraud can also occur in the context of financial statements, defined as intentional misrepresentation deviating from the truth in financial reports or referred to as fraudulent financial statements. Additionally, [16]defines fraudulent financial statements as intentional actions to falsify or conceal amounts or information in financial reports with the aim of deceiving financial statement users, either through overstatement or understatement. [16] reveals that overstatement occurs when amounts or information in financial statements are intentionally exaggerated to make the financial condition appear better than it actually is. This fraud is often committed by recognizing revenue that has not occurred yet or eliminating expenses that should be recorded. On the other hand, understatement occurs when amounts or information in financial statements are intentionally obscured or reduced to make the financial condition appear worse than it actually is to minimize profits and avoid corporate income taxes.

#### **2.1.4 Fraud Triangle**

Concept of fraud has continued to evolve, driven by the conditions and causes of such incidents. The fraud triangle is a fundamental concept crucial for preventing and detecting fraud cases. This concept was first introduced by Dr. Donald Cressey in 1953. In his research, [17]proposed that three factors are present leading someone to commit fraud: opportunity, rationalization, ability, and pressure. [18] define pressure as a condition where an individual experiences impetus or demands to achieve a particular goal in performing their duties, such as being required to deliver optimal performance to meet predefined targets. Opportunity refers to a situation that provides an individual with the chance to commit fraud. This situation arises due to weak internal controls, difficulties in detecting and capturing perpetrators, and an unfavorable organizational culture [13]. According to [19] rationalization can be described as a reason or justification that an individual provides for their actions to alleviate feelings of guilt. Rationalization becomes a crucial component in the occurrence of fraud, where perpetrators seek justification to relieve themselves of guilt.

#### **2.1.5 Fraud Diamond**

In 2004, Wolfe & Hermanson expanded on the fraud triangle, first introduced by Cressey in 1953, by introducing a new model that includes an additional factor: capability. This is because individuals with the right position and ability are more prone to encountering increased opportunities in fraudulent activities [18]. Capability factor in committing fraud can be related to an individual's personal traits. These traits include a strong ego, high confidence, and a belief that their actions will go undetected. Furthermore, capability reflects someone with a persuasive personality, as they possess the ability to convince, influence, and motivate others to engage in fraud.

### **2.2. Hypotheses**

#### **2.2.1 Effect of Pressure on Fraudulent Financial Statement**

[6] in their study, There is a beneficial impact of pressure on the occurrence of deceptive financial reporting.. This happens because the profit goals set by the company for its management generate pressure, prompting management to work towards increasing profits and meeting the company's desired targets, even if it involves unethical practices. On the other hand, [20] and [21] show that pressure negatively affects fraudulent financial reporting. This is due to a lower ROA value signifying reduced profits, which reflects the company's poor performance and leads to fraudulent financial statements. Based on this explanation, the hypothesis for this research can be constructed as follows:

H1: Pressure has a significant effect on fraudulent financial statements.

#### **2.2.2 Effect of Opportunity on Fraudulent Financial Statement**

Opportunity is the situation where an individual has the potential to commit in fraudulent actions. Such opportunities can surface Because of inadequate internal control measures in the company's operational

processes. [18]. Furthermore, fraud occurs due to a lack of supervision (ineffective monitoring) in monitoring company performance [22]. This claim is corroborated by the study conducted by [23], which shows that the opportunity variable contributes favorably to fraudulent financial statements.. Similarly, [24] also discovered comparable findings, where ineffective monitoring positively influences and can aid in detecting fraudulent financial reports. Studies by [13] and [25] propose that opportunity negatively impacts fraudulent financial reports. Based on these explanations, the following hypothesis can be proposed for this study:

H2: Opportunity has a significant effect on fraudulent financial statements.

### **2.2.3 Effect of Rationalization on Fraudulent financial Statement**

Before fraud, perpetrators often rationalize their actions, such as finding reasons and eliminating evidence or traces of the fraud committed. Therefore, companies often change auditors to avoid the detection of fraudulent activities [22]. The research conducted by [3] validates the assertion that rationalization significantly influences fraudulent financial statements in a positive effect, as companies switch auditors to decrease the likelihood of the previous auditor discovering irregularities in financial reports. In contrast, the studies by [26,27] demonstrate that the rationalization variable has a substantial adverse impact on deceptive financial reports. This can be attributed to the fact that frequent changes in auditors can lead to a reduction in the incidence of financial statement fraud. The following hypothesis can be formulated for this study based on these observations:

H3: Rationalization has a significant effect on fraudulent financial statements.

### **2.2.4 Effect of Capability on Fraudulent Financial Statement**

According to [22], companies frequently alter their boards of directors with the intention of reducing the detection of fraud by the preceding directors. Therefore, in this study, the capability variable is represented using the proxy of changes in directors. This assertion is further supported by a study conducted by [28], which indicates that capability has a significant positive impact on the likelihood of financial statement fraud. Contrary to this, [29] demonstrate in their research that the capability variable has a significant negative impact, indicating that the more often a company changes its board of directors, the lower the probability of fraudulent financial statements. Based on the aforementioned description, the hypothesis in this study is as

follows: H4: Capability has a significant effect on fraudulent financial statements.

## **3. RESEARCH METHODOLOGY, RESULT AND DISCUSSION**

In this research, a quantitative approach is employed because the data collected is in numerical form. The gathered data will undergo analysis using SPSS 26 software to obtain results for the formulated hypotheses. The population consists of objects or subjects possessing specific attributes and traits as identified by the researcher for reference purposes. The sampling technique utilized in this research is nonprobability sampling, employing the purposive sampling method. The research samples are drawn from the property, real estate, and building construction industries consecutively listed on the IDX during the period 2020-2022. These companies must have consistently presented their annual financial reports on the BEI website or the official company website throughout the years 2020-2022, reported financial statements in Indonesian Rupiah, recorded a profit during the years 2020-2022, and provided complete data for the entire observation period. The data used in this research are secondary data, obtained from company financial reports, websites, books, and articles. The data analysis technique employed is the cross-sectional regression analysis, aimed at predicting changes in the value of the dependent variable through the values of independent variables.

### **Operational Definition and Variable Measurement**

In this research, the primary focus is on the dependent variable, which is fraudulent financial statement (Y). The study also incorporates several independent variables, namely pressure (X1), opportunity (X2),

rationalization (X3), and capability (X4). The table below offers a comprehensive overview of the operational definitions and measurements for each of these variables:

Table 1. Operational Definition and Measurement of the Variable

| Variabel                           | Definition                                                                                                                                                                            | Indicator                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fraudulent Financial Statement (Y) | The intentional act of falsifying or concealing amounts or information in financial statements with the aim of deceiving financial statement users [16]                               | <p>The Fraudulent financial statement is measured using F-score [22]</p> $F - score = \frac{Accrual\ Quality + Financial\ Performance}{2}$ $Accrual\ Quality = \frac{(\Delta WC + \Delta NCO + FIN)}{Average\ Total\ Assets}$ $Financial\ Performance = \frac{Change\ in\ Receivable + Change\ in\ Inventory + Change\ in\ Cash\ Sale + Change\ in\ Earnings}{Total\ Assets}$ |
| Pressure (X1)                      | The condition of an individual who receives encouragement or demands to achieve a certain thing in performing their duties [18]                                                       | <p>The pressure is measured using Return On Asset (ROA) [22]</p> $ROA = \frac{Net\ Income}{Total\ Assets}$                                                                                                                                                                                                                                                                    |
| Opportunity (X2)                   | A circumstance that presents an opening for individuals to engage in fraudulent activities, typically resulting from inadequate internal controls. [19]                               | <p>Opportunity can be measured using percentage of independent board of commissioners [30]:</p> $Opportunity = \frac{Number\ of\ Independent\ commissioners}{Total\ Number\ of\ Commissioners}$                                                                                                                                                                               |
| Rationalization (X3)               | Profitability is the ability of a company to generate profits over one year, expressed in the ratio of operating profit to sales from the end of year profit and loss report data [3] | <p>Using a dummy variable, if there is a change in auditor, 1 point will be given and if there is no change in auditor, 0 points will be given [22]</p>                                                                                                                                                                                                                       |
| Capability (X4)                    | The volume of stock trading reflects the number of stock demand in the capital market [18]                                                                                            | <p>Using a dummy variable, if there is a change in director, 1 point will be given and if there is no change in director, 0 points will be given [22].</p>                                                                                                                                                                                                                    |

### 3.1 Research Approach

#### 3.1.1 Descriptive Statistics

Descriptive statistics offer a comprehensive summary of the entire dataset, encompassing the mean, maximum, minimum values, and standard deviation for the variables: fraudulent financial statement (Y), pressure (X1), opportunity (X2), rationalization (X3), and capability (X4). The total sampling method employed yielded a sample size of 69 companies meeting the research criteria. Furthermore, the dataset

includes 207 financial reports spanning the period from 2020 to 2022. The ensuing descriptive statistical test outcomes are as follows:

Table 2. The Sequence Represents the Results of the Descriptive Statistical Analysis

|                    | N  | Minimum     | Maximum     | Mean        | Std. Deviation |
|--------------------|----|-------------|-------------|-------------|----------------|
| X1                 | 69 | .0001676635 | .1561962003 | .0311239841 | .0290751254    |
| X2                 | 69 | .2500000000 | .6666666667 | .4244133885 | .1008697697    |
| X3                 | 69 | 0           | 1           | .13         | .339           |
| X4                 | 69 | 0           | 1           | .39         | .492           |
| Y                  | 69 | -2.01862776 | 6.527829033 | .3829740974 | 1.408303694    |
| Valid N (listwise) | 69 |             |             |             |                |

### 3.1.2 Classic Assumption Test

In this research, a classical assumption test is needed to check whether the data used meets several assumptions in the multiple regression equation or not. The assumptions involves several tests, namely:

#### 3.1.2.1 Normal Distribution Test

This test uses a statistical test using Kolmogorov-Smirnov (K-S). The following are the test results:

Table 3. Normal Distribution Test

|                                  |                | Unstandardized Residual |
|----------------------------------|----------------|-------------------------|
| N                                |                | 69                      |
| Normal Parameters <sup>a,b</sup> | Mean           | .000000                 |
|                                  | Std. Deviation | .5303916                |
| Most Extreme Differences         | Absolute       | .07                     |
|                                  | Positive       | .04                     |
|                                  | Negative       | -.07                    |
| Test Statistic                   |                | .07                     |
| Asymp. Sig. (2-tailed)           |                | .200 <sup>c,d</sup>     |

According to Table 3, the Kolmogorov-Smirnov (K-S) statistic is 0.07, accompanied by a residual significance value of 0.2. The test outcomes suggest that all variables exhibit a normal distribution, as the significance value exceeds 0.05.

#### 3.1.2.2 Multicollinearity Test

The purpose of the multicollinearity test is to examine whether the regression model displays correlations among the independent variables. The subsequent findings are as follows:

Table 4. Multicollinearity Test

| Model |            | Collinearity Statistics |       |
|-------|------------|-------------------------|-------|
|       |            | .Tolerance.             | VIF   |
| 1     | (Constant) |                         |       |
|       | X1         | 0.930                   | 1.075 |
|       | X2         | 0.983                   | 1.017 |
|       | X3         | 0.951                   | 1.051 |
|       | X4         | 0.900                   | 1.111 |

In accordance with the outcomes presented in Table 4, the independent variables exhibit tolerance values exceeding 0.10, and the Variance Inflation Factor (VIF) is below 10. Therefore, it can be inferred that there is no evidence of multicollinearity within this regression model.

### 3.1.2.3 Autocorrelation Test

The autocorrelation test is conducted to assess whether there exists a correlation between residual errors in period 't' and residual errors in period 't-1' within the regression model. The ensuing results of the autocorrelation test are as follows:

Table 5. Autocorrelation Test

| Model | R     | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|-------|----------|-------------------|----------------------------|---------------|
| 1     | .295a | .087     | .030              | .54672                     | 1.755         |

According to the findings presented in Table 5, the Durbin-Watson value in this study is 1.755. Given that the Durbin-Watson value surpasses the critical value, it indicates that there is no autocorrelation present in the linear regression model.

### 3.1.2.4 Heteroscedasticity Test

The heteroscedasticity test is conducted to examine whether there is a disparity in the variance of residuals from one observation to another within the regression model. The ensuing results of the heteroscedasticity test are as follows:

Table 6. Heteroscedasticity Test

| Model | Unstandardized Coefficients |            | Standardized Coefficients |       | t     | Sig. |
|-------|-----------------------------|------------|---------------------------|-------|-------|------|
|       | B                           | Std. Error | Beta                      |       |       |      |
| 1     | (Constant)                  | .036       | .384                      |       | .093  | .926 |
|       | X1                          | -.049      | .523                      | -.012 | -.093 | .926 |
|       | X2                          | .573       | .557                      | .128  | 1.028 | .308 |
|       | X3                          | -.071      | .126                      | -.071 | -.561 | .576 |
|       | X4                          | .043       | .089                      | .063  | .486  | .629 |

Based on table 6, it shows the results of the Glajser test where the value of each variable has a significance level of more than 0.05. So, it can be concluded that in this research's regression model there is no heteroscedasticity and this regression model can be used in hypothesis testing.

### 3.1.3 Multiple Linear Regression Test

A multiple regression analysis was conducted to determine the extent and direction of the influence exerted by independent variables on the dependent variable. The outcomes of the multiple linear regression test are as follows:

Table 7. Multiple Linear Regression Test.

| Model | Unstandardized Coefficients |            | Standardized Coefficients |       |
|-------|-----------------------------|------------|---------------------------|-------|
|       | B                           | Std. Error | Beta                      |       |
| 1     | (Constant)                  | -.291      | .613                      |       |
|       | X1                          | -.341      | .833                      | -.051 |
|       | X2                          | .024       | .888                      | .003  |
|       | X3                          | .358       | .200                      | .219  |
|       | X4                          | -.291      | .142                      | -.257 |

Variable X1 has a regression coefficient of -0.051, indicating that each 1% increase in ROA can reduce fraudulent financial statements by 5.1%. Additionally, variable X2 has a coefficient 0.003, meaning that each 1% increase in the percentage of independent board commissioners can lead to a 0.3% increase in fraudulent financial statements. Moreover, variable X3 has a coefficient of 0.219, signifying that each 1% increase in auditor changes can result in a 21.9% increase in fraudulent financial statements. Variable X4 has a coefficient of -0.257, indicating that each 1% increase in director changes leads to a 25.7% decrease in fraudulent financial statements.

### 3.1.4 Coefficient of Determination Test ( $R^2$ )

The determination coefficient ( $R^2$ ) gauges the extent to which the model can account for variances in the dependent variable. The following are the SPSS output results of the coefficient of determination test:

Table 8. Coefficient of Determination Test ( $R^2$ )

| Model | R     | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1     | .295a | 0.087    | 0.030             | 0.54672                    |

The Adjusted R Square value of 0.030 indicates that the independent variables pressure, opportunity, rationalization, and capability can collectively explain only 3% of the variation in the dependent variable, fraudulent financial statements. The remaining 97% is explained by other variables not tested in this study.

### 3.1.5 Hypothesis test

Hypothesis testing is conducted to elucidate the nature of the relationship between the independent variable and the dependent variable. In this study, hypothesis testing was performed utilizing both the t-statistical test and the F-statistical test.

#### 3.1.5.1 t Test

The t-statistical test is employed to assess whether the independent variable, when considered individually or partially, exerts a significant influence on the dependent variable. The subsequent results of the t-statistical test are as follows:

Table 9. t Test

| Model |            | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
|       |            | B                           | Std. Error | Beta                      |        |      |
| 1     | (Constant) | -.291                       | .613       |                           | -.476  | .636 |
|       | X1         | -.341                       | .833       | -.051                     | -.409  | .684 |
|       | X2         | .024                        | .888       | .003                      | .027   | .978 |
|       | X3         | .358                        | .200       | .219                      | 1.786  | .079 |
|       | X4         | -.291                       | .142       | -.257                     | -2.045 | .045 |

#### 3.1.5.1 F Test

The F statistical test aims to test whether there is an indication of a linear relationship between the dependent variable and each independent variable. The results of the F statistical test are as follows:

Table 10. F Test.

| Model | Sum of Squares | df     | Mean Square | F    | Sig.  |
|-------|----------------|--------|-------------|------|-------|
| 1     | Regression     | 1.817  | 4           | .454 | 1.520 |
|       | Residual       | 19.129 | 64          | .299 |       |
|       | Total          | 20.947 | 68          |      |       |

Referring to able 4.11, it can be seen that the F-value is 1.520 with a significance level above 0.05, specifically 0.207. Therefore, it can be concluded that the regression function in this study is not fit.

## 4. DISCUSSION

### 4.1 Effect of Pressure on Fraudulent Financial Statement

In Table 9, the variable X1 exhibits a t-value of -0.409 with a significance level of 0.684. Consequently, H1 is rejected, implying that there is no significant influence between the pressure variable and fraudulent financial statements. The research findings suggest that pressure, measured using ROA, does not emerge as a significant factor affecting fraudulent financial statements. This is attributed to the property, real estate, and construction industry's ability to generate profits through total assets adjusted for costs. In this sector, sustainable income from property leasing or sales can provide a stable source of revenue, supporting consistent earnings and a high ROA, thereby minimizing the likelihood of financial statement fraud. This study aligns with previous research conducted by [8,23,31].

### 4.2 Effect of Opportunity on Fraudulent Financial Statement

The variable X2 exhibits a t-value of 0.027 with a significance level of 0.978, which is greater than 0.05. As a result, the conclusion is drawn that opportunity does not significantly affect fraudulent financial statements. These findings align with prior research conducted by [8,22]. The rationale behind this alignment may be attributed to the fact that independent boards of commissioners may not necessarily instill confidence in the objectivity or independence of their oversight of management, as suggested by [32]. The presence and appointment of independent commissioners in a company may be primarily driven by regulatory compliance rather than an assurance of enhanced oversight. Furthermore, [33] contends that interference in the functioning of independent commissioner boards can compromise the objectivity of the oversight conducted by independent commissioners. Consequently, the abundance of independent commissioners in a company may not emerge as a significant factor in improving operational oversight.

### 4.3 Effect of Rationalization on Fraudulent Financial Statement

For Variable X2, a t-value of 1.786 is observed with a significance level of 0.079. Consequently, H3 is rejected, implying that rationalization does not have a significant impact on fraudulent financial statements. These findings are consistent with prior research conducted by [18,34,35]. The rationale behind this alignment is that changing auditors is not solely motivated by the intent to avoid potential detection of fraudulent financial statements by the previous auditor. Other factors influencing this decision include provisions outlined in Peraturan Otoritas Jasa Keuangan (OJK) Nomor 13/POJK.03/2017, which permits companies to use audit services from the same public accountant for a maximum of three consecutive financial reporting years.

### 4.4 Effect of Capability Fraudulent Financial Statement

For Variable X4, a t-value of -2.045 is observed with a significance level of 0.045. Consequently, H4 is accepted, indicating that capability has a negative impact on fraudulent financial statements. These findings align with previous studies conducted by [8,29], which suggest an inverse relationship between capability and fraudulent financial statements. The results imply that a higher frequency of changes in a company's board of directors is associated with a reduced likelihood of encountering fraudulent financial statements. This correlation is attributed to the transparent reasons for alterations in the board of directors, typically disclosed in the company's annual financial statements.

## 5. CONCLUSION

Based on previous research, the following conclusions can be drawn:

1. Contrary to the initial hypothesis (H1), it is evident that pressure do not exert a significant influence on fraudulent financial statement, resulting in the rejection of the alternative hypothesis.

2. Similarly, the research indicates that variations in opportunity do not have a substantial impact on, fraudulent financial statement, leading to the dismissal of the alternative hypothesis (H2).
3. Hypothesis (H3) rationalization also do not exert a significant influence on fraudulent financial statement, resulting in the rejection of the alternative hypothesis.
4. The capability has a negative effect on fraudulent financial statement, so it can be concluded that (H4) is rejected.

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