

The Influence of Pentagon Fraud on The Financial Statements of Infrastructure Companies Listed in Indonesia Stock Exchange

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Abstract: The purpose of this research is to examine empirically the influence of fraud pentagon on financial statement fraud. Independent variables that used in this research are financial stability, financial target, external pressure, managerial ownership, ineffective monitoring, nature of industry, change in auditor, change in directors, and frequent number of CEO's picture. Dependent variable is financial statement fraud. Populations on this research are infrastructure companies that listed in Indonesian Stock Exchange (IDX) during 2015-2017. By using purposive sampling method, there are 81 samples. The statistical method is multiple linier regression analysis, with hypotheses testing of statistic t-tests, statistic F-tests, and coefficient of determination. The result of this research shows that nature of industry has significant influence on financial statement fraud. Whereas the other independent variables have no influence on financial statement fraud. Simultaneous test result shows that independent variables simultaneously have influence on financial statement fraud.

1 INTRODUCTION

Financial statements are summaries from recording process and financial transactions which occurred during a certain period (Listyawati, 2016). According to Indonesian financial accounting standards No.1, the purpose of financial statements is to provide information about financial position, performance, and changes in financial position of an entity that is beneficial to a large number of users in making economic decisions. These users can assess the company's performance through its financial statement. Therefore, companies sometimes commit acts of fraud to the financial statements in order their performance gets a good assessment.

Financial statement fraud is a deliberate attempt by companies to deceive and mislead users, especially investors and creditors, by presenting and falsifying the material value of financial statements (Sihombing & Rahardjo, 2014). Fraud in financial statements causes that financial statements become not reliable due to dishonest presentation and there are some factors that mislead the users in making decision.

Fraud in Indonesia can take place in various sectors such as public companies that often involved

in government procurement project. According to kompas.com, government procurement of goods and services project is the biggest area to commit fraud like corruption. Almost 80 percent cases that handled by Komisi Pemberantasan Korupsi (KPK) are from that area. The companies that often involved in that area are listed companies in infrastructure sector like construction, transportation, and telecommunication. A lot of companies in those sectors have been classified as blacklist in Lembaga Kebijakan Pengadaan Barang dan Jasa Pemerintah (LKPP) (Aprillia et al., 2015). If those companies commit fraud in their operation activities, it doesn't rule out the possibility that fraud can be happened in their financial statements. Survey from Association of Certified Fraud Examiners (ACFE) at 2014 also showed that one of those sectors, that is construction, is the most frequent sector which commit financial statement fraud.

One of theory that can be used to detect fraud is fraud pentagon theory which developed by Jonathan Marks. Five elements in this theory are pressure, opportunity, rationalization, competence, and arrogance.

2 LITERATURE REVIEW

2.1 Agency Theory

Iqbal & Murtanto (2016) explain that agency theory describes the relation between shareholder as principal and management as agent. Management is a party contracted by shareholders to work for their interests. Therefore, management has to account the performance to shareholders.

In company, management has authority in making decision about certain matters that can affect the condition of company. However, such decision making sometimes is incompatible with the interests of shareholders. This difference of interest causes conflict of interest between the two parties so that the company as an agent faces various conditions that make them committing fraud (Sihombing & Rahardjo, 2014).

One of media that can be used by management to commit fraud is financial statements. The financial statements serve as an intermediary between management and shareholders regarding the company's performance through financial information. Fraud pentagon theory can be a tool to detect financial statement fraud performed by management.

2.2 Financial Statement Fraud

Financial statement fraud is a deliberate attempt by companies to deceive and mislead users, especially investors and creditors, by presenting and falsifying the material value of financial statements (Sihombing & Rahardjo, 2014). According to Aprilia (2017), financial statement fraud is fraudulent by management of company in the form of material misstatements in financial statements presented by them and this is detrimental to investors and other interested parties.

2.3 Fraud Pentagon Theory

Fraud Pentagon is one of theories that explain the condition that cause fraud. This theory is development of fraud triangle proposed by Cressey. Fraud triangle consists of three elements namely pressure, opportunity, and rationalization. This theory was later developed by Jonathan Marks in 2009 (Vassiljev & Alver, 2016). There are two additional elements that are incorporated into fraud pentagon, those are competence and arrogance. The representation of fraud pentagon theory is as follows.

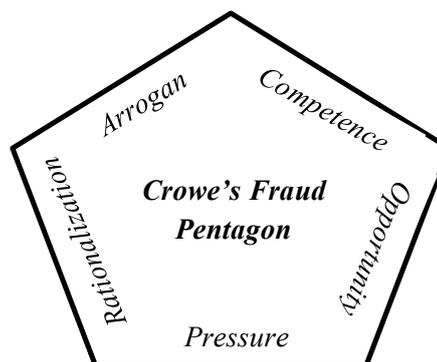


Figure 1: Crowe's Fraud Pentagon Theory.

These are the explanation about those five elements.

- a. Pressure
Harahap et al (2017) explain that pressure is the encouragement of the person who commit fraud. Pressure can include almost everything like lifestyle, economic demand, and financial or non financial matters. One of pressure for company or management to manipulate its financial statement is when there is decline in financial prospect (Elder et al., 2013).
- b. Opportunity
Opportunity is the condition that give a chance for management or employee to commit fraud (Elder et al., 2013), such as boards of directors or audit committees that are not effective in overseeing financial reporting so that opportunity arise.
- c. Rationalization
Rationalization is a justification that arises in the mind of management when fraud has occurred. This thought will arise because they do not want their action to be known so that they justify the manipulation that has been done. This action is done to keep them safe and free from punishment (Aprilia, 2017).
- d. Competence
Competence is an employee's ability to override internal controls, develop a sophisticated concealment strategy, and to control the social situation to his or her advantage by selling it to others. (Crowe Horwarth, 2012). In short, Aprilia (2017) explain that competence is management or employee ability to go through the internal control.
- e. Arrogance
Arrogance is an attitude of superiority and entitlement or greed on the part of a person who believes that internal controls simply do not

personally apply (Crowe Horwarth, 2012). Arrogance is also a boastful attitude from someone who believes he or she is capable to commit fraud and will not be known when fraud has occurred (Aprilia, 2017).

2.4 Fraud Score Model

Fraud Score Model or F-Score consists of description of data presented from the sum of accrual quality and financial performance. The sum of these two components can well predict the risk of financial statement fraud seen from financial statement perspective (Rini & Ahmad, 2012).

Accrual quality can be proxied with RSST accrual created by Richardson, Sloan, Soliman, and Tuna. RSST can describe all non-cash and non-equity changes in company's balance sheet as accrual. Rini & Ahmad (2012) explain that accrual basis in recording financial statements provides a lot of flexibility for management to manipulate the financial statements using discretionary accrual, ie free accrual recognition, unregulated, and base on management policy.

While financial performance is used to examine whether managers misstate their financial statements to mask deteriorating performance (Dechow et al., 2010). Financial performance consists of change in receivable, change in inventory, change in cash sales, and change in earnings.

2.5 Research Framework

This research uses fraud pentagon theory to detect financial statement fraud in a company. There are five elements of fraud pentagon, ie pressure, opportunity, rationalization, competence, and arrogance. Pressure can be proxied with financial stability, financial target, external pressure, and managerial ownership. There are two proxies for opportunity, those are ineffective monitoring and nature of industry. Rationalization is proxied with change in auditor. Competence is proxied with change in directors. The last is arrogance that can be proxied with frequent number of CEO's Picture. The following below is research framework based on the explanation above.

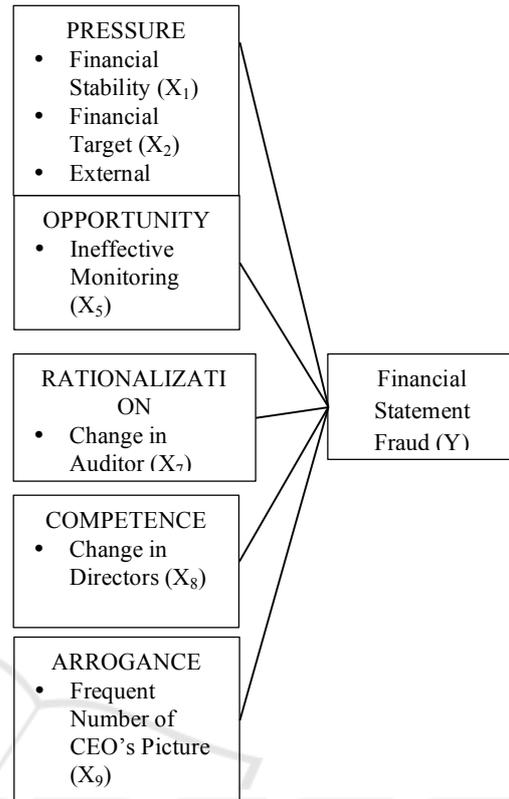


Figure 2: Research Framework

2.6 Research Hypothesis

2.6.1 Financial Stability In Influencing Financial Statement Fraud

According to SAS No. 99, managers face pressure to commit financial statement fraud when financial stability and/or profitability are threatened by economic, industry, or entity operating conditions (Skousen et al., 2008). Tessa & Harto (2016) explain that the amount of total assets owned by company become the main attraction for investors, creditors, and other decision makers. When the total assets is quite a lot, the company is considered capable of providing the maximum return for investors.

The fraudulent that occurs for getting the well seen financial stability is by manipulating the wealth of assets in financial statements. The ratio of change in total assets can be used to see an increase in the company's assets wealth. The research result of Iqbal & Murtanto (2016) showed that financial stability affects the financial statement fraud which is the greater ratio the greater possibility of financial statement fraud. Based on description above, the

first hypothesis is: H₁: Financial stability has significant effect on financial statement fraud.

2.6.2 Financial Target In Influencing Financial Statement Fraud

Management has a pressure to reach the financial target that has been planned before. However, sometimes there are inhibiting factors for the management to achieve financial target so that it cannot be fulfilled. Pressure to achieve this target can lead to fraudulent management action to achieve financial target and maintain financial performance to look good. The company's financial target is usually earnings that can be seen from return on assets (ROA) (Tessa & Harto, 2016). ROA is used to indicate how efficiently an asset has been used. ROA is also often used in assessing the performance of managers and determining bonus, wage increases, and others. Therefore, management will attempt to manipulate financial statements such as profit manipulation to be considered capable of achieving predetermined financial targets and get a big bonus. Then the second hypothesis is:

H₂: Financial target has significant effect on financial statement fraud.

2.6.3 External Pressure In Influencing Financial Statement Fraud

External pressure can be proxied by using leverage ratio (LEV) i.e. The ratio between total liabilities and total assets. Tessa & Harto (2016) explain that companies with high leverage ratio are considered to have large debts and high credit risk. This makes creditors hesitant and worried about lending to them. Thus, the companies try to make creditors believe that they are able to repay the loan by manipulating. The research result of Tiffani & Marfuah (2015) showed a significant positive effect on financial statement fraud. This means that the greater pressure from external parties will increase the potential for management to commit financial statement fraud. Based on the explanation, the third hypothesis is:

H₃: External pressure has significant effect on financial statement fraud.

2.6.4 Managerial Ownership in Influencing Financial Statement Fraud

Tiffani & Marfuah (2015) explain that the ownership of shares by management makes them feel they have a claim right on the income and assets of the company so that it will affect the company's

financial condition. Ownership of shares by management leads them to use the company's funds for personal interest. Personal interest that is the pressure experienced by the management encourages the occurrence of fraudulent financial statements. The higher percentage of shares ownership by management the higher risk of financial statement fraud can occur. Based on the explanation, the fourth hypothesis is:

H₄: Managerial ownership has significant effect on financial statement fraud.

2.6.5 Ineffective Monitoring In Influencing Financial Statement Fraud

Ineffective monitoring is a condition where there is no effective internal control system owned by the company (Tessa & Harto, 2016). Management can commit fraudulent actions due to opportunities resulting from inadequate monitoring or ineffective internal control system. Independent board of commissioners are believed to increase the company's monitoring effectiveness. Thus, a company with small number of board of commissioners will lead to higher fraud. According to the explanation, the fifth hypothesis is:

H₅: Ineffective monitoring has significant effect on financial statement fraud.

2.6.6 Nature Of Industry In Influencing Statement Fraud

Tiffani & Marfuah (2015) explain that there are certain accounts in the financial statements which balances are determined by the company based on an estimate, such as uncollected receivable account. This is where an opportunity can arise to commit financial statement fraud. Research conducted by Sihombing & Rahardjo (2014) shows that nature of industry proxied by change in receivable ratio influence financial statements fraud significantly. They explain that an increase in the amount of receivable from the previous year can be an indication that the company's cash flow is not good. The number of receivable owned by the company will reduce the amount of cash that the company can use for its operational activities. Limited cash can be an encouragement for management to manipulate financial statements. Based on the description, the sixth hypothesis is:

H₆: Nature of industry has significant effect on financial statement fraud.

2.6.7 Change In Auditor In Influencing Financial Statement Fraud

Change in auditor can be considered as a form to remove the fraud trail found by the previous auditor. This tendency encourages companies to replace their independent auditor to cover up the fraud within the company (Tessa & Harto, 2016). Not only to remove traces of fraud, if company begins to be dissatisfied with the performance of auditor that cannot be intervened or influenced to manipulate the audit results, the fraud tendency will be higher (Stice, 1991 in Sihombing & Rahardjo, 2014). On this basis, the seventh hypothesis is:

H₇: Change in auditor has significant effect on financial statement fraud.

2.6.8 Change in Directors In Influencing Financial Statement Fraud

The change in directors is not always good for the company. A change in board of directors can be an attempt to get rid of the directors who are deemed to know the company's fraud (Devy et al., 2017). In addition, more competent directors can make fraud more likely to happen. Wolfe & Hermanson (2004) explain that fraudulent can occur if done by someone with the right ability to carry out the fraud. Employees who have a certain intellect or ability are considered capable of identifying opportunities and committing acts of fraud in accordance with their abilities. Therefore, the replacement of new directors who are more competent is considered capable of committing acts of fraud. Thus, the eighth hypothesis is:

H₈: Change in directors has significant effect on financial statement fraud.

2.6.9 Frequent Number Of CEO's Picture in Influencing Financial Statement Fraud

Arrogance is an attitude of superiority and entitlement or greed on the part of a person who believes that internal controls simply do not personally apply (Crowe Horwarth, 2012). Tessa & Harto (2016) explain that the number of CEO's pictures emblazoned in the company's annual report can present the level of arrogance or superiority that CEO has. Yusof et al (2015) also explain that the number of pictures show the way CEOs to be known to the wide community and treat themselves as celebrity because of their arrogant nature. This is consistent with the explanation of Crowe Horwart (2011) which mentions that one of character in arrogance is to have big ego - CEO as celebrity -

factor of pride. Therefore, more and more CEO's pictures in the annual report allegedly will make the arrogance higher so that he/she is able to commit fraud without fear of internal control. Based on the explanation, the ninth hypothesis is:

H₉: Frequent number of CEO's picture has significant effect on financial statement fraud.

3 RESEARCH METHODOLOGY

3.1 Population and Sample

This study is a quantitative descriptive research that reveals the magnitude of an influence or relationship between variables expressed in numbers. This study uses infrastructure companies taken from construction, transportation, utilities and infrastructure sectors listed on Indonesia Stock Exchange 2015-2017. The data source in this research is secondary data, ie annual reports obtained from Indonesia Stock Exchange website (www.idx.co.id) and the company's official website. The population numbers are 74 companies. Sampling technique used is purposive sampling. The criteria used in the sampling of this study are:

- The infrastructure companies listed on Indonesia Stock Exchange during 2015 - 2017.
- Companies that publish annual report that have been audited in the company's website or BEI website during 2015 - 2017 stated in Rupiah (Rp).
- The Companies are not delisted during 2015 - 2017.
- The Companies have complete data relating to research variables (all datas are available in publication during 2015 - 2017).
- The companies provide complete datas of 2015 to be used as a comparison in 2015.

Based on those criteria, total samples that will be used are 27 companies with three years observation period.

3.2 Variable Operationalization

3.2.1 Dependent Variable

Dependent variable in this study is financial statement fraud measured by F-Score model. F-Score model is the sum of two variables: accrual quality and financial performance. Accrual quality is proxies with RSST accrual, while financial performance is proxied with changes in receivable,

changes in inventory, changes in cash sales, and changes in earnings (EBIT).

$$RSST \text{ Accrual} = \frac{\Delta WC + \Delta NCO + \Delta FIN}{\text{Average Total Assets}}$$

WC (Working Capital)	=	(Current Assets – Cash and Short term Investments) – (Current Liabilities – Debt in Current Liabilities)
NCO (Non-Current Operating)	=	(Total Assets – Current Assets – Investment and Advances) – (Total Liabilities – Current Liabilities – Long Term Debt)
FIN (Financial Accrual)	=	(Short Term Investment + Long Term Investment) – (Short Term Debt + Long Term Debt)
ATS (Average Total Assets)	=	$\frac{\text{Beginning Total Assets} + \text{End Total Assets}}{2}$

Financial performance = change in receivable + change in inventories + change in cash sales + change in earnings

Change in receivables	=	$\frac{\Delta \text{Receivables}}{\text{Average Total Assets}}$
Change in inventories	=	$\frac{\Delta \text{Inventories}}{\text{Average Total Assets}}$
Change in cash sales	=	$\frac{\Delta \text{Sales}}{\text{Sales (t)}} - \frac{\Delta \text{Receivables}}{\text{Receivables (t)}}$
Change in earning	=	$\frac{\text{Earnings (t)}}{\text{Average Total Assets (t)}} - \frac{\text{Earnings (t - 1)}}{\text{Average Total Assets (t - 1)}}$

Change in Auditor	Change in auditor is dummy variable. This variable is coded 1 if there is change of Public Accounting Firm during 2014 - 2016, and code 0 otherwise.
Change in Directors	Change in directors is dummy variable. This variable is coded 1 if there is change of director during 2014 - 2016, and code 0 otherwise.
Frequent Number of CEO's Picture	This variable uses the number of CEO's pictures present in annual report during 2014 - 2016.

3.2.2 Independent Variables

Variable	Operational Variable Definition
Financial Stability (ACHANGE)	$ACHANGE = \frac{(\text{Total Assets}_t - \text{Total Assets}_{t-1})}{\text{Total Aset}_t}$
Financial Target (ROA)	$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$
External Pressure (LEV)	$LEV = \frac{\text{Total Liabilities}}{\text{Total Assets}}$
Managerial Ownership (OSHIP)	$OSHIP = \frac{\text{Total Managerial Shares}}{\text{Total Number of Shares}}$
Ineffective Monitoring (BDOUT)	$BDOUT = \frac{\text{The Number of Independent Board}}{\text{Total Board of Commi}}$
Nature of Industry (RECEIVABLE)	$RECEIVABLE = \frac{\text{Receivable}}{\text{Sales}} - \frac{\text{Receivable (t - 1)}}{\text{Sales (t - 1)}}$

3.3 Data Analysis Methode

This research begins with descriptive statistic and classical assumption test consisting of normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test, then hypothesis testing will be done. The regression equation used in this research is as follows:

$$F\text{-Score} = \beta_0 + \beta_1 ACHANGE + \beta_2 ROA + \beta_3 LEV + \beta_4 OSHIP + \beta_5 BDOUT + \beta_6 RECEIVABLE + \beta_7 AUDCHANGE + \beta_8 DCHANGE + \beta_9 CEOPIC + \epsilon$$

- F-Score = Financial statement fraud
- β_0 = Constant
- $\beta_1, 2, 3, 4, 5, 6, 7, 8, 9$ = Regression coefficient
- ACHANGE = Change in total assets ratio
- ROA = Net income per total assets ratio
- LEV = Total liabilities per total assets ratio
- OSHIP = Managerial ownership ratio
- BDOUT = Independent board of commissioners ratio
- RECEIVABLE = Change in receivables ratio
- AUDCHANGE = Change in auditor
- DCHANGE = Change in directors in company

CEOPIC = The number of CEO's picture in annual report
 ε = Error

4 DATA ANALYSIS AND DISCUSSION

4.1 Descriptive Statistic

Descriptive statistical analysis is used to provide an overview of the minimum, maximum, mean, and standard deviation of each research variable. The results of descriptive statistical analysis are presented in the following table.

Based on Table 4.1, it can be seen that the average value of dependent variable (financial statement fraud) which measured by F-Score is 0,0448 indicates the average level of financial statement fraud that occur in infrastructure companies. Company with the lowest risk of financial statement fraud is PT Arpeni Pratama Ocean Line Tbk. in 2015 with a minimum value of -1,2061 and the highest risk of financial statement fraud is PT Leyand International Tbk. in 2016 with a maximum value of 1,6432.

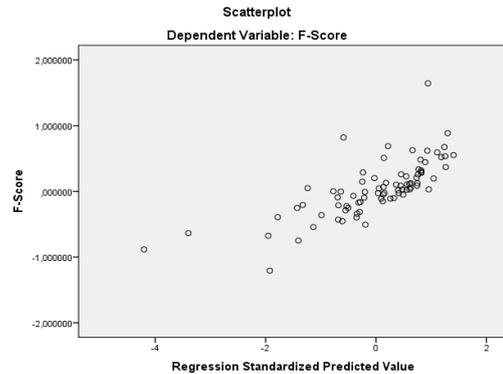
Table 4.1: Descriptive Statistic

	N	Min	Max	Mean	Std. Dev
F-Score	81	-1,206	1,6432	,04481	,42416
ACHANGE	81	-,3871	,5861	,08387	,18488
ROA	81	-,4891	,2126	,03096	,09957
LEV	81	,0392	5,3653	,68304	,75505
OSHIP	81	,0000	,6640	,03579	,12577
BDOUT	81	,2500	,6667	,41053	,10594
RECEIV	81	-,0875	,3816	,02140	,07897
AUDCHANGE	81	0	1	,16	,369
DCHANGE	81	0	1	,38	,489
CEOPIC	81	0	26	5,01	4,440
Valid N (listwise)	81				

4.2 Classical Assumption Test

The result of normality test using the Kolmogorov-Smirnov test above shows a significance value of 0,226. The value is greater than 0,05 so it can be concluded that the data tested in this study is normally distributed. The result of multicollinearity test shows that all tolerance values are more than 0,10 and VIF values less than 10 so it

can be concluded that there is no correlation between independent variables or no multicollinearity problem in the data tested in this study. Result of Autocorrelation Test test result shows a significance value of 0,577. This value is greater than 0,05 so it can be concluded that there is no autocorrelation problem in the data tested in this study.



It can be seen from the picture that:

- The data dots spread above and below or around 0.
- Data dots do not gather just above or below only.
- The spread of data dots does not form a wavy pattern widened then narrowed and widened again.
- The distribution of data dots is not patterned.

Thus, it can be concluded that there is no heteroscedasticity on the data tested in this study.

The result of classical assumption test consisting of normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test show there are no problems in data normality, multicollinearity, autocorrelation, and heteroscedasticity so that the data in this research can be used in multiple regression analysis.

4.3 Hypothesis Test

4.3.1 Simultaneous Regression Coefficient (F Test)

This test aims to show how far the influence of independent variables individually explain the dependent variable. The result of f test can be seen in the table 4.2 following. This test aims to test whether the independent variables affect the dependent variable simultaneously. The result of F test is presented in following table.

Tabel 4.2: Hasil Uji Statistik F.

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	7,783	9	,865	9,289	,000 ^b
Residual	6,610	71	,093		
Total	14,393	80			

All independent variables are said to affect the dependent variable simultaneously if the value of F arithmetic $>$ F table. The result of F test above shows the value of F arithmetic is 9,289 with a significance value of 0.000. F table is obtained from ($V1 = k$, $V2 = n - k - 1$) (Sujarweni, 2016). From F distribution table for $\alpha = 0,05$, F table $V1 = 9$ and $V2 = 71$ is 2,015. From these results can be seen that F arithmetic of 9,289 exceed F table of 2,015 so it can be concluded that all independent variables in this study affect the financial statement fraud simultaneously.

4.3.2 Partial Regression Coefficient (t Test)

This test aims to show how far the influence of independent variables individually explain the dependent variable. The result of t test can be seen in the table 4.3.

Table 4.3: t Test Results

Model	Standardized Coefficients	t	Sig.
ACHANGE	,044	,472	,638
ROA	,202	1,982	,051
LEV	-,024	-,256	,799
OSHIP	-,021	-,248	,805
BDOUT	-,032	-,383	,703
RECEIV	-,600	-7,082	,000
AUDCHANGE	-,148	-1,712	,091
DCHANGE	-,118	-1,386	,170
CEOPIC	,009	,109	,914

The result of t test shows that there are three independent variables that have positive value. The variables are financial stability (ACHANGE), financial target (ROA), and frequent number of CEO's picture (CEOPIC). It means that the three independent variables have positive relation to financial statement fraud. While the other six independent variables are negative, which mean that

those variables have negative relation to financial statement fraud. Those six variables are external pressure (LEV), managerial ownership (OSHIP), ineffective monitoring (BDOUT), nature of industry (RECEIV), change in auditor (AUDCHANGE), and change in directors (DCHANGE). This result also shows that only one independent variable which has significant influence on financial statement fraud that is nature of industry (RECEIV). A variable can be classified to have significant effect if the value of Sig. $<$ 0,05, the significance value of RECEIV is 0,000 while the other eight independent variables do not have significant effect on financial statement fraud due to the value of Sig. which exceeds 0,05.

4.4 Discussion

4.4.1 The Influence Of Financial Stability On Financial Statement Fraud

Table 4.3 shows that financial stability has no effect on financial statement fraud. Loebbecke et al. (1989) and Bell et al. (1991) in Skousen et al (2008) explain that when company's growth is below the industry average, management can manipulate financial statements to improve the company's prospect. The company's growth cannot be separated from the state of economy in Indonesia. In the period 2014 - 2016, Indonesian economy is weak. Even the economic growth of Indonesia in 2015 is the lowest for 6 years (Wisanggeni, 2016). Weak economy creates low demand for goods and services so that company's earnings are reduced. Nevertheless, the government intensively increases infrastructure development to improve Indonesia's competitiveness which has been lagging behind other developing countries in other regions (Simorangkir, 2017).

Based on data from the Ministry of Public Works and People's Housing cited in finance.detik.com, several achievements that have been achieved in infrastructure development consist of construction of new roads, border roads, toll roads, bridges, dams, and housing. The impact of these infrastructure developments lead to rapid growth, for example in one of infrastructure sector i.e. construction in recent years (Petriella, 2017).

4.4.2 The Influence Of Financial Target On Financial Statement Fraud

Based on Table 4.3, financial target has no effect on financial statement fraud. The test result of ROA in accordance with cognitive dissonance theory. In

management accounting research, this theory provides an explanation for how cognition or mental representations mediate between budget goal difficulty and performance (Jacob G, 2006). From this theory can be concluded that someone who has positive goal will not be disturbed by the act of fraud because they will experience uncomfortable feelings and it's not in accordance with their beliefs. Companies that have individuals like this will reduce the risk of fraud. Thus, higher corporate financial target will increase employees' motivation to achieve it with positive beliefs and behaviors.

4.4.3 The Influence Of External Pressure On Financial Statement Fraud

The result shows that external pressure does not affect the financial statement fraud. Richardson et al (2004) explain that debt has high degree of reliability, both short-term and long-term debt. Debt accounts are company's liability against creditors or suppliers that are recorded at nominal value. If the company is going concern, then usually the company must pay its debt in full. The only source of subjectivity from debt account is discount estimate for direct payments that suppliers may offer. The amount of each discount is usually verified by suppliers so the probability of error is relatively small.

4.4.4 The Influence Of The Managerial Ownership On Financial Statement Fraud

The result indicates that managerial ownership does not affect the financial statement fraud. Aprilia (2017) explains that the less percentage of managerial ownership in a company, the management control will be smaller and this causes the fraud higher. However, the higher percentage of managerial ownership then fraud will be lower. Company management will be more cautious about financial statements if they have company shares as it relates to their personal financial needs. Many infrastructure companies in this study which their shares are owned by management. In accordance with the explanation, the more shares owned by managerial then the company will be more careful about the financial statements.

4.4.5 The Influence Of Ineffective Monitoring On Financial Statement Fraud

Based on table 4.3, ineffective monitoring does not affect the financial statement fraud. Ineffective monitoring is a condition where there is no effective internal control system owned by company (Tessa & Harto, 2016). Companies with small number of independent board of commissioners will make internal control ineffective and lead to increase fraud. However, the result of this study measured only by proportion rather than rules of function and role of independent commissioners in minimizing the risk of fraudulent financial statements as described by Harahap et al (2017).

4.4.6 The Influence Of Nature Of Industry On Financial Statement Fraud

The result shows that nature of industry affects the financial statement fraud. Richardson et al (2004) explain that receivable has low level of reliability. It also involve subjective estimate of uncollected receivable. In addition, receivable account is the most commonly used accrual category for manipulation. A low rate of change in receivable indicates that the income received is also low and the cash received will be small. This is what can trigger the risk of financial statement fraud.

4.4.7 The Influence of Change in Auditor on Financial Statement Fraud

Based on table 4.3, The change in auditor does not affect the financial statement fraud. Change in auditor is not always related with fraud attempted to be masked by the company. Article 22 in Peraturan Pemerintah No. 20 of 2015 about the practice of public accountant states that the limit of providing audit services is 5 years. Auditor turnover can happen because the limit period of public accounting services provision has expired. In addition, auditor turnover can be done as a result of companies that are not satisfied with the performance of previous independent auditor, for example from audited results (Sihombing & Rahardjo, 2014).

4.4.8 The Influence of Change In Director On Financial Statement Fraud

The result of this study shows that the change in directors does not affect the financial statement fraud. Change in directors is not always an indication of the fraud occurring within the

company. There are several factors that may underlie the change in board of directors as specified in the following rules or laws.

- a. Article 105 paragraph 1 in Undang-Undang Number 40 Year 2007 about Limited Liability Company states that members of board of directors may be dismissed at any time based on the GMS decision by stating the reasons.
- b. Article 8 paragraph 1 of Peraturan Otoritas Jasa Keuangan No.33/POJK.04/2014 about Board of Directors and Board of Commissioners of Issuers or Public Companies states that members of board of directors may resign from their positions before their term of office expires.
- c. Article 94 paragraph 3 in Undang-Undang Number 40 Year 2007 regarding Limited Liability Company states that members of board of directors are appointed for a certain period and can be reappointed. The term of board of directors is contained in Article 3 paragraph 3 of Peraturan Otoritas Jasa Keuangan No.33/POJK.04/2014 which reads "1 (one) tenure of board of directors no later than 5 (five) years or until the closing of the Annual General Meeting of Shareholders at the end of 1 (one) tenure". This tenure makes the company through GMS may appoint a new board of directors.

4.4.9 The Influence of Frequent Number of CEO's Picture on Financial Statement Fraud

Table 4.3. shows that the frequent number of CEO's picture does not affect the financial statement fraud. Previously, Yusof et al (2015) explain that the numbers of CEO's pictures show how he/she to be known to the wider community and treat him/herself as celebrity because of the arrogant nature. This nature can be categorized as one of the characteristics of narcissism. However, the number of CEO's picture can be attributed to the positive thing that is confidence. Confidence is built on the success and achievement that has been achieved, the life skills that have been mastered, the principles and norms that are held firm, and the care shown to others (Quamila, 2017).

5 CONCLUSIONS AND SUGGESTIONS

5.1 Conclusion

Based on the background, theoretical basis, hypothesis, and test results in this study, it can be concluded that only nature of industry measured by change in receivable ratio that affects financial statement fraud. Other variables such as financial stability, financial target, external pressure, managerial ownership, ineffective monitoring, change in auditor, change in directors, and frequent number of CEO's picture have no influence on financial statement fraud. However, these variables simultaneously have significant influence on financial statement fraud.

5.2 Suggestion

Next researchers are advised to use other measuring tools of financial statement fraud such as M-Score and Earning Management. Other variables can also be used such as the quality of external auditor, institutional ownership, and CEO politician. Next researchers are also advised to expand the population not only at infrastructure companies, but other sectors like manufacturing and banking. While investors and public are advised to perform an analysis of the company's financial statements before investing to avoid the loss, especially on receivable because it has a big risk of fraud.

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