Financial Statement Fraud Analysis Testing with the New Fraud Diamond Model in Manufacturing Companies Listed on the Indonesia Stock Exchange in 2017-2021

Faisal Yusuf[1]
[1]Universitas Islam Indonesia

[1]Surel: Faisalalyusuf24@gmail.com

Abstarct

Financial statements are documents that contain information that describes the company's financial condition and reflects the real state of the company. Thus, making management try to produce financial statements that describe the company in a healthy state. However, management performance is sometimes not as good as expected. This encourages management to commit financial statement fraud. This study aims to determine the effect of the new fraud diamond model, namely pressure proxied with financial stability and external pressure, personal financial need and financial target, opportunity proxied by the nature of industry and Ineffective Monitoring, personal integrity proxied by earnings management, history of sales and earnings growth, capability proxied by change of directors and to determine the influence of good corporate governance proxied by the Independent Board of Commissioners and Female on Board against financial statement fraud. This research is quantitative by using the population of manufacturing companies listed on the IDX in 2017-2021, selecting data using purposive sampling techniques. This research model is expected to help stakeholders in understanding the factors that affect the currence in financial statements.

Keywords: Financial statement fraud, New Fraud Diamond Model, Good corporate governance

Introduction

Financial statements aim to provide useful information for stakeholders in making decisions regarding financial position, financial performance, and cash flow. Realizing the importance of information content in financial statements makes managers motivated to improve company performance so that the company's existence will be maintained. Unfortunately, not all company management realize the importance of clean and fraud-free financial statements (Rahmayuni 2018). Research conducted by the Association of Certified Fraud Examiners (ACFE) shows that financial statement fraud only occurs in 10% of all fraud cases, but the average loss is the largest even the difference is very far when compared to other forms of fraud amounting to $ 975,000.00 it shows that how big the impact of losses experienced by the occurrence of financial statement fraud (ACFE, 2020). Relating to financial reporting, financial statement fraud is an action carried out by employees intentionally to cause misstatements or omissions of material information in making organizational financial statements (ACFE, 2020). Financial Statement Fraud has grown widely, one of the most famous fraud cases is the case of Enron and the public accounting firm Arthur Andersen which was the best public accounting firm at the time. In 2002, Enron, one of the energy companies in the United States committed the largest financial statement fraud in the history of accounting scandals. Enron manipulated the financial statements by recording a profit of US $ 600 million when the company was experiencing losses. Financial statement fraud committed by Enron resulted in losses of US $ 50 billion for the company, US $ 32 billion for investors, and US $ 1 billion for thousands of employees working at Enron (Andrean &; Susanto, 2021). In addition to

financial statement fraud committed by public companies such as Enron, in Indonesia, financial statement fraud is also carried out by state-owned companies. In 2018, PT Garuda Indonesia (Persero) Tbk committed fraud on financial statements which were considered as financial statement fraud in large quantities. The State-Owned Enterprise (BUMN) committed financial statement fraud by recording compensation income from PT Mahata Aero Teknologi that had not been received by PT Garuda Indonesia (Persero) Tbk. The recognition of unreceived income made PT Garuda Indonesia (Persero) Tbk record a net profit of USD 809 thousand or equivalent to IDR 11.33 billion (Andrean &; Susanto, 2021). In addition, cases of financial statement fraud also occurred at Bank Bukopin which manipulated information of material value in the 2015-2017 financial statements by reducing the net profit value in 2016 by approximately Rp 896.44 billion from the actual value. In addition, provision and commission income also changed to Rp 317.88 billion which was previously worth Rp 1.06 trillion (Rachman, 2018). Other fraudulent practices also occurred at Bank Tabungan Negara (BTN) which window dressing financial statements in the form of selling problematic loans to Asset Management Companies (PPAs) and providing loans to PPAs related to these sales. Bank Tabungan Negara is also proven to provide loans of IDR 100 billion and additional loans of IDR 200 billion to PT Batam Isldan Marina (Safitri, 2020). Some of the financial statement fraud cases above show that the fraud was committed by top management. Weak corporate governance also causes financial statement fraud in the company. In Indonesia, there are also several cases of fraud both in government, banks and companies. The existence of fraud in financial statements can mislead users of financial statements in making economic decisions.

According to Cressey (1953) there are three conditions that cause fraud, namely pressure, opportunity and rationalization which is referred to as the fraud triangle. These three conditions are risk factors for fraud in various situations. Research related to the detection of factors causing financial statement fraud mostly uses fraud triangle analysis and development models of the theory such as diamond fraud analysis (Wolfe &; Hermanson, 2004). In its development, the theory of fraud triangle continues to develop, such as the diamond fraud theory (Wolfe &; Hermanson, 2004) where the diamond fraud theory adds capability factors that cause fraud. The theory states that many frauds that are generally large in nominal value are impossible if there is no specific person with special capabilities in the company, so the person who commits the fraud must have the capability to realize the open door as a golden opportunity to take advantage of it. Then (Gbegi &; Adebisi, 2013) designed a model called the new fraud diamond model which is an evolution of the diamond fraud theory, according to his research the model is a model that can be used as an alternative in analyzing the factors that cause fraud, especially financial statement fraud. The difference between the diamond fraud theory and the new diamond model theory lies in replacing the rationalization factor with the personal integrity factor, according to the theory a person's decision and decision-making process is a condition that can assess a person's integrity. A person, especially a manager in a company who has poor integrity indicates a decision that leads to fraud. This research is a development of research conducted by Khamainy et al. (2021) which examined the effect of the New fraud diamond model on Financial statement fraud. In this study, researchers added Good corporate governance proxied by the Independent board of commissioners and female on board to complete the analysis of factors affecting financial statement fraud.

Methods

The type of research carried out is quantitative in the form of numbers and analysis which will later beused for decision making with annual report data sources. The type of data that will selected for use in this study is secondary data in the form of financial statements from manufacturing companies obtained from the Indonesia Stock Exchange (IDX) for the 2017-2021 period. This sampling technique uses purposive sampling techniques, which are sampling based on certain

criteria. The sample criteria of this study are: (1) All manufacturing companies listed on the Indonesia Stock Exchange consecutively during the period 2017-2021. (2) Companies that present complete annual reports on the company's website or IDX website consecutively during the observation period. (3) The Company is indicated to have committed manipulation (fraud) at least 1 time in 5 years of observation. The type of data to be used in this study is secondary data in the form of financial statements from manufacturing companies listed on the Indonesia Stock Exchange during 2017-2021. In this study, data was taken from the www.IDX.co.id website and the Indonesia Stock Exchange Corner, Faculty of Economics, Universitas Islam Indonesia. The type of data used is quantitative data, which is data whose amount can be calculated and is numeric. The theories used in this study are agency theory, fraud triangle theory, fraud diamond theory, and new fraud diamond theory. The variables used in this study are pressure proxied with financial stability and external pressure, personal financial need and financial target, opportunity proxied by nature of industry and Ineffective Monitoring, personal integrity proxied by earnings management, history of sales and earnings growth, capability proxied by change of directors and to determine the effect of good corporate governance proxied by Independent Board of Commissioners and Female on Board. Here is a picture of the research model::

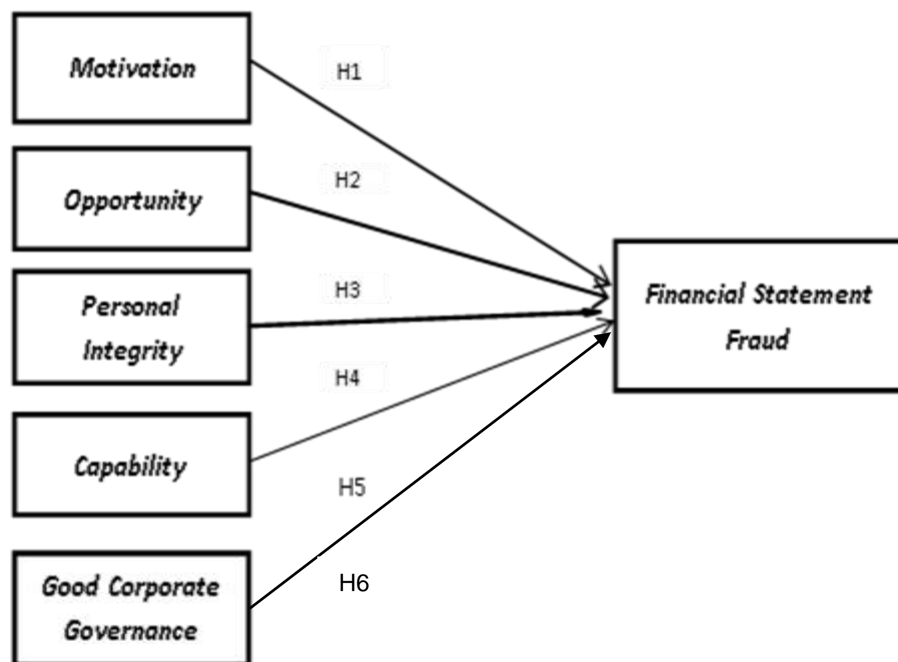

Figure 1. Research Model

Findings dan Discussion

1. The Effect of Pressure/Motivation on Financial Statement Fraud
   According to Tiffani & Marfuah (2015), Pressure or Motivation is a drive or motivation that wants to be achieved but is limited by the inability to achieve it, so that it can result in someone cheating. Pressure can be in the form of financial factors, bad habits that a person has, and external pressure. Gbegi &; Adebisi (2013) argue that the motivation of fraudsters, which is one side of diamond fraud may be more appropriately expanded and identified by the abbreviation: NAVSMICE consisting of NAVs = National Value System; M = Money; I = Ideology; C = Coercion ; and E = Ego. Based on the explanation above, it can be concluded that Pressure has an effect on Financial Statement Fraud.
2. The Effect of Opportunity on Financial Statement Fraud

Opportunity is a condition that provides an opportunity for management or employees to misrepresent financial statements. Opportunities can occur due to weak internal control, poor management supervision or through the use of positions (Zulham et al., 2020). According to SAS No.99 states that opportunities for financial statement fraud can occur in three categories. These conditions are industrial conditions, ineffective supervision, and organizational structure. Based on the explanation above, it can be concluded that Opportunity has an effect on Financial Statement Fraud.

3. The Effect of Personal Integrity on Financial Statement Fraud
   Gbegi & Adebisi (2013) include Personal Integrity instead of Rationalization in a new model called the "New Fraud Diamond Model", this is especially true for financial statement fraud where sources of pressure (e.g. profit management analysis, History of Sales and Earnings Growth) are more observed. Personal integrity in a management becomes a benchmark for whether a financial statement is reliable or not, so that the financial statements avoid fraud and misleading information (Sutikno &; Sabeni, 2000). According to Gbegi &; Adebisi (2013), Personal Integrity can be observed through observation of a decision and decision-making process. Commitment in ethical decision making can be observed and this can help in assessing a person's integrity. Based on the explanation above, it can be concluded that Personal Integrity has an effect on Financial Statement Fraud.
4. The Effect of Capability on Financial Statement Fraud
   Wolfe & Hermanson (2004) argue that many frauds that are generally large in nominal value are impossible if there is no certain person with special capabilities in the company, so the person who commits the fraud must have the capability to realize the open door as a golden opportunity to take advantage of it not just once but many times. Based on the explanation above, it can be concluded that Capability has an effect on Financial Statement Fraud.
5. The Effect of Good Corporate Governance on Financial Statement Fraud
   Gbegi &; Adebisi (2018) stated that the New Fraud Diamond theory is closely related to Good Corporate Governance. The Diamond New Fraud theory states that the main factors that influence the occurrence of fraud, namely pressure, opportunity, personal integrity, and capability. These factors can be related to weaknesses in Good Corporate Governance practices, such as lack of supervision and separation of duties in the implementation of duties and responsibilities in the company. In practice, Good Corporate Governance is expected to prevent financial statement fraud through the implementation of strong internal control and audit mechanisms, transparency in financial reporting, and clear responsibility and accountability from decision makers in the company. Therefore, the development and implementation of effective Good Corporate Governance can help reduce the factors that influence the occurrence of fraud in organizations. Based on the explanation above, it can be concluded that Good Corporate Government has an effect on Financial Statement Fraud.

Conclusion

Testing using the New Fraud Diamond Model is an effective approach to analyzing fraud in financial statements. The New Fraud Diamond Model is an effective approach in analyzing fraud in financial statements. This model incorporates important factors that influence the occurrence of fraud, such as pressure, opportunity, personal integrity and capability. By using the New Fraud Diamond Model, it can identify various fraud indicators that can be used as clues to potential fraud in financial statements. These indicators include signs such as lifestyle changes that do not correspond to income levels, the presence of unaccountable transactions, or weaknesses in the internal control system. In combination with Good Corporate Governance, this model provides a robust framework for analyzing fraud risk by taking into account broader organizational factors. Combining these two models can provide mutually reinforcing benefits. This model helps in identifying fraud risks that may be missed by inadequate governance practices. Instead, Good

Corporate Governance provides the framework and controls needed to implement recommendations from fraud analysis results using the New Fraud Diamond Model. The research is expected to have important practical implications for companies, auditors, regulators, and other stakeholders. By combining testing using the New Fraud Diamond Model with the implementation of Good Corporate Governance, companies can improve their ability to detect and prevent financial statement fraud. Auditors can use it as an additional tool in the audit process to strengthen the reliability of financial reporting. Regulators can also use these findings to develop guidelines and standards that are more effective in promoting Good Corporate Governance and preventing fraud.

References

ACFE. (2020). ACFE. *Report to the Nations*. www.acfe.org

Andrean, I., & Susanto, S. (2021). *Andrean dan Salim: Fraud Diamond Dalam Mendeteksi Financial ... Fraud Diamond Dalam Mendeteksi Financial Statement Fraud Pada Perusahaan Manufaktur*.

Cressey, D. R. (1953). *Other People's Money; A Study In The Social Psychology Of Embezzlement*. Petterson Smith.

Gbegi, D. O., & Adebisi, J. F. (2013). The New Fraud Diamond Model - How Can It Help Forensic Accountans In Fraud Investigation In Nigeria. *European Journal of Accounting Auditing and FInance Research*, *1*(4), 129–138.

Gbegi, D. O., & Adebisi, J. F. (2018). *Theoretical framework of fraud, forensic accounting, fraud triangle theory and fraud diamond theory* (S. Ramamoorti, D. E. Morrison, J. W. Koletar, & N. A. Soebagjo, Eds.). Springer.

Khamainy, A. H., Ali, M., & Setiawan, M. A. (2021). Detecting financial statement fraud through new fraud diamond model: the case of Indonesia. *Journal of Financial Crime*. https://doi.org/10.1108/JFC-06-2021-0118

Rachman, F. F. (2018). *Bank Bukopin Permak Laporan Keuangan, Ini kata BI dan OJK*. Detik Finance. https://finance.detik.com/moneter/d-3994551/bank-bukopin-permak-laporan-keuangan-ini-kata-bi-dan-ojk

Rahmayuni, S. (Jurusan A. F. E. U. N. P. J. H. K. U. A. T. P. (2018). *Analisis Pengaruh Fraud Diamond terhadap Kecurangan Laporan Keuangan (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di BEI Tahun 2013-2016)*.

Safitri, K. (2020). *DPR Panggil Dirut BTN Terkait Dugaan Manipulasi Laporan Keuangan*. https://money.kompas.com/read/2020/02/03/151601726/dpr-panggil-dirut-btn-terkait-dugaan-manipulasi-laporan-keuangan

Sutikno, I., & Sabeni, A. (2000). Evaluasi Terhadap Relevansi, Reliabilitas, dan Komparabilitas Laporan Keuangan : Studi EMpiris pada Perusahaan "Go Public' di Bursa Efek Jakarta. In *Jurnal Bisnis dan Akuntansi* (Vol. 2, pp. 225–236). https://jurnaltsm.id/index.php/JBA/article/view/492/404

Tiffani, L., & Marfuah. (2015). Deteksi Financial Statement Fraud dengan Analisis Fraud Triangel pada Perusahaan Manufaktur yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Akuntansi Dan Auditing Indonesia*, *19*(2), 112–125.

Wolfe, D. T., & Hermanson, D. R. (2004). The FWolfe, D. T. and Hermanson, D. R. (2004) "The Fraud Diamond : Considering the Four Elements of Fraud: Certified Public Accountant", The CPA Journal, 74(12), pp. 38–42. doi: DOI:raud Diamond : Considering the Four ElemWolfe, D. T. and Hermanson, D. R. *The CPA Journal*, *74*(12), 38–42.

Zulham, O. :, Farizi, A., Politeknik,), Pontianak, N., & Andriana, S. (2020). FRAUD DIAMOND TERHADAP FINANCIAL STATEMENT FRAUD Tashadi Tarmizi 2) Politeknik Negeri Pontianak. *BALANCE : JURNAL AKUNTANSI DAN BISNIS*, *5*(1), 71–82. http://jurnal.um-palembang.ac.id/balance