# DETECTION OF FINANCIAL STATEMENT FRAUD TRIANGLE (FRAUD TRIANGLE) IN LQ45 COMPANIES LISTED IN INDONESIA STOCK EXCHANGE

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## ABSTRACT

Financial Statement Fraud is a deliberate action taken by management by manipulating the value of financial statements to mislead users of financial statements. Information on the financial statements should describe the actual condition and financial performance of the company and do not contain information that is misleading to the user, but in reality, there are still many financial statements that do not inform the actual financial condition of the company. This research aims to detect fraudulent financial statements based on fraud analysis triangle, there are three conditions that are always present in every incident of fraud. The three conditions are pressure, opportunity, and rationalization. Based on the fraud triangle theory developed by Cressey, researchers develop variables that can be used to proxy the size of the fraud triangle component. Fraud on financial statements or financial statement fraud in this study was proxied by the fraud score model. The population of this study was LQ45 companies listing on the Indonesia Stock Exchange in 2014-2018. The sample selection is done by purposive sampling method and obtained as many as 20 company research samples. Hypothesis testing is done by multiple linear methods. The results showed that the financial stability variable which is proxied by changes in assets (ACHANGE) affects the financial statement fraud while the other variables have no effect.

## CCS Concepts

• *Auditing →Fraud→Fraud Of Financial Statement →Database management system • Computing methodologies→Database design and models, high performance.*

## Keywords

*Fraud triangle,* Fraud Of *Financial Statement*

## 1. INTRODUCTION

Financial Statement Fraud is a deliberate action taken by management by manipulating the value of financial statements to mislead users of financial statements [21]. Abdullahi and Mansor [2] stated that cheating can also be considered as an intentional misstatement, hiding and ignoring the truth to manipulate financial statements on company expenses. The investor's decision making process depends on the financial statements provided [13]. In practice, financial fraud consists of falsifying financial statements which include manipulation of elements that exaggerate assets, sales and profits, or minimize liabilities, costs, or losses.

Information on the financial statements should reflect the actual condition and financial performance of the company and do not contain misleading information for users, but in reality, there are still many financial reports that do not inform the actual financial condition of the company as happened in the case of PT Garuda Indonesia in 2019 . Garuda is suspected to include upfront income into current year income which affects Garuda Indonesia's financial statement because if the nominal value of the cooperation is not included as revenue, the company will actually still suffer losses [18].

Fraud Triangle Theory is one model that explains the factors that encourage a person to do a gap consisting of three components, namely pressure, opportunity, and rationalization. pressure is a situation that makes someone interested in cheating. The incentive or motivation to commit fraud is the result of perceived pressure on someone [19]. Pressure can be caused by financial and non-financial factors. Financial pressure felt by someone will trigger someone to cheat, with the aim of getting incentives that will be used to solve the financial problems experienced. That companies can have the motivation to manipulate earnings when financial conditions are unstable, and management is pressured to meet the expectations of third parties [44]. Perceived opportunities can also cause someone to cheat.
Weak internal control environments can provide opportunities to engage in fraudulent financial reporting [19] and companies that do not yet have effective internal controls will provide many opportunities for management to manipulate transactions [28]. This is supported by Lou and Wang [44] who argue that weak internal audit is when

management pays little attention to supervision which can increase the possibility of material misstatement. Opportunities can be caused by weak supervision which results in someone cheating [2]. A good oversight mechanism and a trustworthy audit committee can increase the effectiveness of company supervision, this will minimize fraud. [39]. Effective supervision of internal control will prevent any opportunities to commit fraud so that appropriate decisions can be taken by users of financial statements.

One cannot be involved in fraud if the individual cannot justify dishonest actions [2]. Management and ethical characteristics are the main determinants of attitude or rationalization [10]. According to Albrecth [4] the relationship between the three elements in the fraud triangle is interactive in that the greater the opportunities and pressures, the less rationalization a person needs to commit fraud and the more dishonest an actor is, the easier it is for him to rationalize deviant behavior, proxies pressure variables with financial stability, external pressures, individual financial needs, and financial target [34]. The opportunity element is proxied by the nature of the industry, ineffectiveness of supervision and rationalization is proxied by audit opinion.

This research is a replication of Skousen's (2009) research. The difference between this study and Skousen's research lies in the proxy and testing model used. In Skousen's research (2009) Opportunity to use 3 proxies namely nature of industry, ineffective monitoring and organizational structure and rationalization using 3 proxies are proxied by the replacement of KAP, audit opinion and total accruals (TACC). While in this study the opportunity only uses 2 proxies namely nature of industry and ineffective monitoring and rationalization using only 1 proxy namely audit opinion. In this study, fraud is measured by the fraud score model, while in the study of fraud fraud is measured by grouping and comparing companies that are indicated fraud (fraud firms) and companies that are not indicated fraud (non-fraud firms).

This study aims to prove empirically that financial stability, external pressures, personal financial needs, financial targets, the nature of industrial ineffectiveness of supervision, and rationalization affect the fraudulent financial statements.

# 2. THEORITICAL REVIEW

## 2.1 Financial Statement Fraud

According to the ACFE Fraudulent financial statements (KLK) are intentional statements, or omit material facts, or accounting data that are misleading and will cause the reader to change his judgment in making decisions, while the National Commission on Financial Financial Reporting defines KLK as a deliberate treatment of actions or omissions , which produces financial statements that are materially misleading [30].

### Cheating Triangle (Fraud Triangle Theory)

The cheating triangle is a model to explain the factors that encourage someone to cheat in a job that consists of three components, which together lead to the possibility of fraudulent behavior[19]. Furthermore, that the scheme the fraud triangle is a scheme that illustrates the always present fraud caused by pressure, opportunity, rationalization and attitude[42]. Factors affecting financial statement fraud are classified based on three conditions that are generally present when fraud exists, namely: incentives / pressures, opportunities and attitudes / rationalization for justify cheating (Statements on Auditing Standards No. 99).

Pressure is a factor that drives someone to cheat. Pressure can be in the form of economic demands and lifestyle, and usually the necessity of life makes a person depressed. That financial problems that cannot be shared cause perpetrators to face perceived financial pressures, and therefore, provide criminal motives [26]. According to SAS No.99, there are several pressure conditions that can encourage fraud, including financial stability, external pressure, individual financial needs and financial targets. Opportunity is an opportunity for someone to cheat, an opportunity arises when there are poor workplace conditions such as weak internal control. According to SAS No.99, opportunities for financial statement fraud can occur if the company is in a situation relating to the nature of the industry, ineffective supervision , and organizational structure. Rationalization is the tendency of cheaters to justify their actions. Rationalization is part of the most difficult cheating triangle [35], whereas according to SAS No. 99 rationalization in companies can be measured by opinion an audit.

## 2.2 Hypothesis Development

### *Financial Stability affects to fraud of Financial Statement*

The instability of the company's condition will cause a lack of public confidence in the company's performance so that it will hamper investment flow in the coming year, and this is a pressure on management [28] . Pressure can occur when financial stability or profitability is threatened by economic, industrial, or entity operating conditions [19].

This causes management to manipulate financial statements so that the company's financial condition is seen to be stable. This is consistent with the studies of Tiffani and Marfuah (2015) which show that financial stability has a significant effect on earnings management, and is in line with the results of Abdullahi and Mansor's research (2018); Low and Wang (2009); Daniel and Hadian (2013) which indicate KLK is positively correlated with financial stability.

H1: Financial stability affects the cheating of financial statements

### *External pressures have an effect on the financial statement's financial statement*

External Pressure is a condition of pressure perceived by management that comes from the company's external. When management is pressured to meet the expectations of third parties, then company management can be pressured to manipulate earnings [44]. That the better the company's performance, the more shareholders expected, and the more pressure management had to give the best results [32].

One of the pressures associated with the company is external pressure which is a threat to the survival of the company in the stock market and the desire to meet external debt [45].This is supported by research by Yesiariani and Rahayu (2017) which indicates that external pressure has a positive effect on KLK, and is in line with studies conducted by Tiffani and Marfuah (2015), Skousen (2009), Huang et. al. (2016), Persons (2011).

H2: External pressure affects the cheating of financial statements

### *Individual Financial Needs affect Financial Statement Fraud*

An individual's financial needs are circumstances in which the financials of company executives are influenced by the company's finances [34]. The perpetrators of fraud will commit fraud when they are in a condition of financial difficulties or other types of needs [19]. Personal pressure is the pressure faced by individuals due to living conditions such as personal needs and family debt [45]. That the desire to have a high lifestyle is the cause of financial factors [28]. This is supported by the results of Kartika et. al. (2017) which proves that the financial needs of individuals influence the cheating of financial statements

H3: Individual financial needs affect the financial statement fraud

### *Financial Targets have an effect on the Financial Statement Kecurangan*

Financial targets are the risk of targets set by directors and are excessive pressure for management to achieve these targets. Perceived financial pressures that can motivate financial statement fraud are financial losses, failure to meet income targets (financial targets), or inability to compete with other companies [4]. Management always sets high targets, for example by setting a high ROA in hopes of getting a large bonus, but in reality the targets that have been set are not met and cause management to commit fraudulent financial statements [7]. This is consistent with the results of the study of Famieza et. al. (2016) which indicates that financial targets proxied by ROA affect KLK and in line with research by Reskino and Anshori (2016), Kartika et. al. (2017), Manurung and Hadian (2013).

H4: Financial targets have an effect on financial statement fraud

### *The nature of the industry affects the cheating of financial statements*

The nature of industry is the ideal state of a company in the industry. In general, the more advanced industrial development in a country or region, the more the number and variety of industries, and the more complex the nature of the activity and business. This will affect the financial statements, because usually companies can use estimates on certain accounts. Companies that use estimates in determining the size of a particular account will pose a greater risk for the company.

Companies that have complex transactions and management involvement with subjective considerations will have a high risk. Complex transactions give rise to a greater probability of fraud [44]. This is supported by Lou and Wang's (2009) research which shows the results that the nature of the industry influences financial statement fraud.

H5: The nature of the industry influences financial statement fraud

### *Ineffective supervision has an effect on Financial Statement Fraud*

Ineffective supervision is where the supervisory department in a company has not effectively carried out monitoring on the company's performance. this can cause weak internal control in the organization and open up opportunities for management to manipulate transactions. The opportunity to do KLK can occur because of the asymmetry of information between the owner and agent [28]. One way to minimize fraud is by a good supervision mechanism, the audit committee is believed to be able to increase the effectiveness of company supervision [39]. This is in line with the results of the Manurung and Hadian (2013) study that financial effectiveness is proxied by the commissioner ratio (BDOUT) having a positive relationship with KLK and in line with Tiffani and Marfuah (2015), Huang et. al. (2016), Aprilia et. al. (2015).

H6: Ineffective supervision influences financial statement fraud

### *Rationalization affects the Fraud of Financial Statements*

Attitude or character is something that causes someone to commit fraud rationally. Management integrity (attitude) is the main determinant of the quality of financial statements, financial statements will be doubted, when the integrity of managers is not yet believed 44]. Low integrity of a person causes a person not to feel guilty when committing fraud, for example, management justifies doing earnings management practices [28].This is consistent with studies of Tiffani and Marfuah (2015) and Yesiariani and Rahayu (2017) which prove that rationalization has an effect on KLK and is in line with the results of Abdullahi and Mansoor's research (2018) which indicates that there is a relationship between rationalization to detect fraud that occurs in the sector the Nigerian public.

H7: Rationalization affects the financial statement fraud

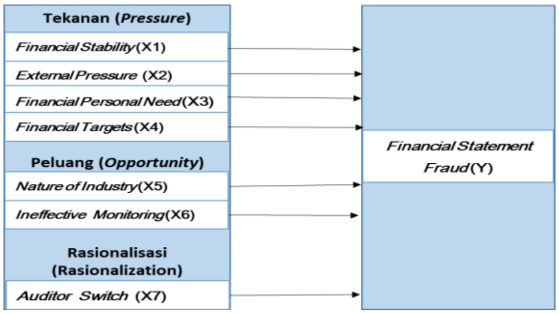


**Figure 2.1 Kerangka Berpikir/ konseptual**

# 3. RESEARCH METHODS

## 3.1 Definition of Variable Operations

The variables used in this study are financial statement fraud (financial statement fraud) as the dependent variable, while the independent variable consists of financial stability, external pressures, personal financial needs, financial targets, industry characteristics, ineffective supervision and rationalization.

## 3.2 Variable Fraud Financial Statements

Variable financial statement cheating is proxied by the Fraud Score Model according to Dechow et al. (2011), which consists of accrual quality proxied by RSST accrual, and financial performance which is proxied by changes in accounts receivable, changes in inventory accounts, changes in cash sales accounts, changes in EBIT. The F-Score model is the sum of two variables, namely accrual quality and financial performance [34], can be described in the following equation:

***F-Score = Accrual Quality + Financial Performance***

The calculation model:

$$\text{RSST ACRUAL} = \frac{\Delta WC + \Delta NCO + \Delta FIN}{Average\ Total\ Asset}$$

Direction :

*WC (Working Capital) = (Current Assets – Current Liability)*

*NCO (Non Current Operating Accrual) = (Total Assets – Current Assets –Invesment and Advances) – (Total Liabilities– Current Liabilities – Long Term Debt)*

*FIN (Financial Accrual ) = Total Investment – Total Liabilities*

*ATS (Average Total Assets) = (Beginning Total Assets + End Total Assets): 2*

The model for measuring financial performances as in research (Dechow et. Al., 2011) the calculation model is:

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

Direction :

| | |
|---|---|
| *Change in receivable =* | *Δ Receivable / Average total Assets* |
| *Change in inventory =* | *Δ Inventory / Average total Assets* |
| *Change in cash sales =* | *[(Δ Sales / sales (t)) – (Δ Receivable / receivable (t))]* |
| *Change in earnings =* | *[(Earnings (t) / Average total Assets (t)) – (Earnings (t-1) / Average total assets (t-1))]* |

### *Financial Stability Variable*

Financial stability variables are measured by the ratio of changes in assets. The ratio of changes in assets denoted by ACHANGE can be calculated using the formula:

$$\text{ACHANGE} = \frac{(Total\ Aset\ (t) - Total\ Aset\ (t-1))}{Total\ Aset\ (t)}$$

### *Variable External Pressure*

The variable external pressure is proxied by Leverage (LEV), where high leverage will cause pressure on management so there is a positive relationship with financial statement fraud. External pressure is measured by a leverage ratio that can be calculated by the formula:

$$\text{LEV} = \frac{Total\ Hutang}{Total\ Aset}$$

### *Variable Financial Needs (Personal Financial Needs)*

*Personal financial needs are measured by the ratio of ownership of shares by insiders symbolized by OSHIP. The ratio of share ownership by an insider can be calculated by:*

$$\text{OSHIP} = \frac{Total\ saham\ yang\ dimiliki\ orang\ dalam}{Total\ Saham\ biasa\ yang\ beredar}$$

### *Financial Targets Variable (Financial Targets)*

Financial Target Variables (Financial targets are conditions where the company sets a target level of profit that must be obtained during the year. Financial targets are measured by Return on total assets (ROA). ROA can be calculated using the formula: l Targets)

$$\text{ROA} = \frac{Laba\ bersih\ setelah\ pajak}{Total\ aset}$$

### *Nature of Industry Variables*

The nature of the industry is the ideal state of a company in the industry, the company can use estimates on certain accounts. The Nature of Industry is measured by Inventory calculated by the formula:

$$\text{INVENTORY} = \frac{Inventory\ (t)}{Sales\ (t)} - \frac{Inventory\ (t-1)}{Sales\ (t-1)}$$

### *Ineffective Monitoring Variables*

Ineffective monitoring is a condition where the company does not have a supervisory unit that effectively monitors the performance of the company. Effective monitoring is proxied by the Board of Commissioners denoted by BDOUT which can be calculated by the formula**:**

$$\textbf{BDOUT} = \frac{\textit{Total dewan komisaris independen}}{\textit{Total dewan komisaris}}$$

### *Variation Rationalization (Rationalization)*

According to SAS No.99 one of the common conditions for rationalization, is audit opinion. Rationalization is proxied by audit opinion (AUDREPORT). AUDREPORT is measured using a dummy variable, namely Category 1 if the company receives an unqualified fair opinion and category 0 if the company accepts other opinions other than a qualified unqualified [34].

### *Population and Sample*

The population in this study were all LQ45 companies listed on the Indonesia Stock Exchange (IDX) in 2014 - 2018. The sampling technique was carried out by purposive sampling in order to obtain a representative sample in accordance with specified criteria. After scanning, there are a total of 20 companies multiplied by 5 years, so the total sample of this study is 100 samples.

### *Kinds and Sources Of Data*

The type of data used in this study is in the form of quantitative data and the source of the data used is secondary data. The data used in this study is information obtained from audited financial statements of all LQ45 companies listed on the 2014-2018 Indonesia Stock Exchange (IDX).

### *Data analysis technique*

In examining the influence of the fraud triangle on financial statement fraud, multiple regression tests (mutiple regression methods) will be used. The multiple regression method is a statistical method to test the relationship between one dependent variable and more than one independent variable [17].

# 4. RESULT

## 4.1 Result

**Tabel 1. Hasil Analisis Regresi**

| Variabel | B | T | Sig. | Keterangan |
|---|---|---|---|---|
| (Constant) | -18,048 | -1,641 | 0,104 | |
| *Financial Stability* | -1,540 | -4,491 | 0,000 | Berpengaruh Signifikan |
| *External Pressure* | -0,054 | -0,138 | 0,891 | Tidak Berpengaruh Signifikan |
| *Personal Financial Need* | -26,350 | -1,659 | 0,101 | Tidak Berpengaruh Signifikan |
| *Financial Targets* | -0,101 | -0,183 | 0,855 | Tidak Berpengaruh Signifikan |
| *Nature of industry* | 0,007 | 0,025 | 0,980 | Tidak Berpengaruh Signifikan |
| *Ineffective monitoring* | -0,563 | -0,867 | 0,388 | Tidak Berpengaruh Signifikan |
| *Rationalization* | 0,136 | 0,887 | 0,377 | Tidak Berpengaruh Signifikan |
| Variabel Dependen : *Financial Statement Fraud* yang diproksikan dengan *Fraud Score Model (F-Score)* | | | | |

Resources :Data Processed, 2019

## 4.2 DISCCUSION

### *The Effect of Financial Stability on the Financial Statement Fraud*

The results of testing the first hypothesis in this study indicate that the variable financial stability which is proxied by changes in assets (ACHANGE) affects the financial statement fraud. This is indicated by a significant value of 0,000 <0.05. Companies that have high financial instability have a higher potential in cheating financial statements which are proxied by fraud scores.

The results of the study are directly proportional to the research conducted by Abdullahi and Mansor (2018), Tiffani and Marfuah (2015), Manurung and Hadian (2013) and Lou and Wang (2009) who stated that financial stability influences financial statement fraud. This shows that changes in assets can indicate the possibility of financial statement fraud which in this study is proxied by the fraud score model. The greater the value of the ratio of changes in total assets, the wealth of the company is said to be large, and when the company has a large wealth, this illustrates the stability of the company that well. So that if the company's financial stability is not good, the company will try to cover up the situation by doing various ways in order to show the company's financial stability is good, the greater the pressure faced by management to commit fraudulent financial reporting. Large changes in assets cause companies to receive the spotlight and trust from the public, government, investors, and creditors with the motive to obtain a large rate of return (Solechan and Irawati, 2009).

Large companies will be more careful in financial reporting because they want to report conditions more accurately to get the trust of investors. Therefore, the greater the changes in the assets of management companies will be more careful in reporting these changes to maintain the company's credibility in the public eye to be able to attract investors to invest. These results are not in line with research conducted by Wahyuni and Gideon (2017), Yesiariani and Rahayu (2017) and Reskino and Anshori (2016) who say that financial stability has no effect on financial statement fraud.

### *The Effect of External Pressure on the Financial Statement Fraud*

The results of the second hypothesis test show that the external pressure variable which is proxied by the leverage ratio (LEV) has no effect on financial statement fraud. This is indicated by a significant value of 0.891 <0.05. This means that external pressure cannot be used as a reference to detect financial statement fraud which is proxied by a fraud score. The results of this study are in line with the results of the study and Skousen et al. (2008) and Wahyuni and Gideon (2017).

Leverage can be used to describe the condition of the company in terms of comparison of company debt with assets owned. If the value of leverage is high, this can reflect if the company is feared that it cannot repay its debt because the debt value is higher than the assets owned. This information is very useful for creditors who will provide loans to companies, so that management will be motivated to commit fraud The results of the study indicate that the absence of leverage influence could be due to the majority of companies not financing assets using debt, so there is no strong influence on decisions company management of the amount of profit to be reported. In addition, many companies prefer to reissue shares to obtain additional business capital from investors without having to enter into new debt agreements that cause the company's debt burden to increase.

Low financial leverage will also be more attractive to investors because the company has no problems with the ability to pay its debts. But these results are not in line with research conducted by Lou and Wang (2009), Yesiriani and Marfuah (2017), and Tiffani and Marfuah (2015), Skousen (2009), Huang et. al. (2016) and Persons (2011) which state that external pressure influences financial statement fraud.

### *Effect of Personal Financial Needs on Financial Statement Fraud*

The results of testing the third hypothesis in this study indicate that the variable personal financial need proxied by insider share ownership (OSHIP) has no effect on financial statement fraud. This is indicated by a significant value of 0.101> 0.05. This means that personal financial need cannot be used as a reference to detect financial statement fraud which is proxied by a fraud score. The results of the study are directly proportional to the research conducted by Tiffani and Marfuah (2015). SHOSH is the ratio of share ownership owned by management, especially the executives of the company, namely the board of directors and commissioners. The value of this ratio can reflect how much stock is owned by the company's management . If the value of this ratio is getting higher, then the share ownership by the manager in the company will be more numerous so that the possibility of fraud also increases. This study is not able to prove the above theoretical relationship because the condition of the company is not only influenced by how much share ownership the managerial has in the company, but there are other factors that are influenced by employees and outsiders who own shares in the company. A clear separation between the shareholders as the owner who controls the running of the company and the manager as the manager of the company causes the manager does not have enough ability to cheat financial statements (Tiffani and Marfuah, 2015). The results of this study are not consistent with the study conducted by Skousen et al. (2008) and Kartika et. al. (2017) which concluded that the percentage of share ownership by insiders (OSHIP) affects the financial statement fraud.

### *The Effect of Financial Targets on Financial Statement Fraud*

The fourth hypothesis testing results indicate that the financial targets variable which is proxied by return on assets (ROA) has no effect on financial statement fraud. This is indicated by a significant value of 0.855 <0.05. That is, financial targets cannot be used as a reference for detecting financial statement fraud which is proxied by a fraud score. The results of this study are in line with the results of research conducted by Yesiariani and Rahayu (2017), Wahyuni and Gideon (2017) and Tiffani and Marfuah (2015). Return of assets is a comparison of a company's profits with the wealth of the company. ROA is the company's financial target by estimating how much profit will be received with the assets owned by the company. Based on the theory, the greater the company's ROA, the greater the possibility of financial statement fraud. This means that the company's ROA condition rises, showing the company is able to generate profits from company assets and ROA is also used as an assessment of management performance and valuation to get a bonus. The results of the study indicate that there is no possible influence because managers consider that the size of the company's ROA target is still considered reasonable and can be achieved. The manager does not consider the ROA target as a financial target that is difficult to achieve so that the size of the ROA target does not trigger fraud in financial statements conducted by management. The results of this study are not in line with the results of research conducted with Reskino and Anshori (2016), Famieza et. al. (2016), Manurung and Hadian 2013) and Kartika et. al. (2017) which states that financial targets affect financial statement fraud.

### *Effect of Nature of Industry on Financial Statement Fraud*

The fifth hypothesis testing results in this study indicate that the variable nature of industry proxied by inventory does not affect the financial statement fraud. This is indicated by a significant value of 0.980> 0.05. That is, the nature of the industry cannot be used as a reference to detect fraudulent financial statements that are proxied by fraud scores. The results of the study are directly proportional to research conducted by Wahyumi and Gideon (2017), Yesiariani and Rahayu (2017) and Tiffani and Marfuah (2015).

The results of this study were unable to prove the research hypothesis. This is because the companies that are sampled are not included in only one type of industry. The sample used consists of companies with different industrial properties and not all companies have inventory. This is also due to the opportunity factor that there are other variables that allow these variables to detect fraudulent financial statements such as the company's organizational structure and other proxies such as transactions with special parties (RPT) that measure accounts receivable based on transactions with special parties. The results of this study are not appropriate with research conducted by Lou and Wang (2009).

### *Effect of Ineffective Monitoring Against Financial Statement Fraud*

The sixth hypothesis testing results in this study indicate that the ineffective monitoring variable which is proxied by an independent board of commissioners (BDOUT) has no effect on financial statement fraud. This is indicated by a significant value of 0.388> 0.05. That is, ineffective monitoring cannot be used as a reference to detect financial statement fraud which is proxied by a fraud score. The results of the study are directly proportional to the research conducted by Tiffani and Marfuah (2015) Yesiariani and Rahayu (2017), Wahyuni and Gideon (2017).

This could have happened because the appointment of an independent board of commissioners by the company might only be done to meet the regulations and formal provisions of the IDX that require an independent commissioner of at least 30% of the total number of existing commissioners and is not intended to uphold Good Corporate Governance (GCG) in mechanism for preventing financial misstatement. The existence of independent commissioners as supervisors /controllers has not been running optimally, majority shareholders (controllers / founders) still play an important role so that the performance of the board does not increase, even this condition is also stressed that the strong control of the company founder and majority share ownership makes the board of commissioners not independent. The oversight function that is supposed to be the responsibility of board members becomes ineffective. The results of the study are not in line with the results of research conducted by Tiffani and Marfuah (2015), Aprillia et. al. (2017) and Manurung and Hadian (2013) which state that ineffective monitoring influences financial statement fraud.

### *Effect of Rationalization on Financial Statement Fraud*

The seventh hypothesis testing results in this study indicate that the rationalization variable which is proxied by an unqualified audit opinion with an unqualified language has no effect on the financial statement of fraud. This is indicated by a significant value of 0.377> 0.05. That is, rationalization cannot be used as a reference for detecting financial statement fraud which is proxied by a fraud score. The results of this study are in line with Kartika et. al. (2017) and Tiffani and Marfuah (2015). The results of this study are not in line with the results of research conducted by Wahyuni and Gideon (2017) and Aprillia et. al. (2017) which states that rationalization affects the financial statement of fraud. The differences in the results of this study might be due to differences in the proxy rationalization and measurement variables used.

# 5. CONCLUSION, SUGGESTIONS AND LIMITATION

## 5.1 Conclusion

This research was conducted to test financial stability, external pressure, personal financial need and financial targets, nature of industry, ineffective monitoring and rationalization have an influence on financial statement fraud on companies listed on the Indonesia Stock Exchange (IDX) in the 2014-2018 period. Based on data analysis and hypothesis testing, it can be concluded that Financial stability is proxied by changes in assets (ACHANGE) affecting financial statement fraud. Companies that have high financial instability have a higher potential in cheating financial statements which are proxied by fraud scores.

External Pressure which is proxied by leverage ratio (LEV), Personal financial needs proxied by insider share ownership (OSHIP), Financial targets proxied by Return on Assets (ROA), Nature of industry which is proxied by transactions with accounts receivable ratios (INVENTORY) not influencing the Nature of industry, Effective monitoring which is proxied by an independent board of commissioners (BDOUT) and Rationalization which is proxied by a fair audit opinion without exception (unqualified) in an explanatory language does not affect the financial statement fraud.

The results of the study indicate that there is no influence of leverage due to the majority of companies not financing assets using debt, so there is no strong influence on company management decisions on the amount of profit to be reported. The absence of the influence of personal financial need on financial statement fraud is caused by research This sample of companies with share ownership by management is very small and the percentage of share ownership of management is below 1%. Financial targets do not affect financial statement fraud. caused because managers assume that the size of the company's ROA targets are still considered reasonable and can be achieved. The manager does not consider that the ROA target is a financial target that is difficult to achieve so that the size of the ROA target does not trigger the occurrence of fraudulent financial statements conducted by management. . The sample used consisted of companies with different industrial properties and not all companies had inventories. Whereas ineffective monitoring does not affect financial statement fraud because the appointment of an independent board of commissioners by a company may only be carried out to meet the regulations and formal provisions of the IDX that require an independent commissioner of at least 30% of the total number of commissioners and based on available data shows that no there is a company that adds an independent board of commissioners for 5 years of observation. Rationalization has no effect on financial statement fraud due to the number of samples of companies that get unqualified audit opinions with very few explanatory languages that cause audit opinion to have no effect on financial statement fraud which is proxied by fraud scores.

## 5.2 Suggestion

Based on the research that has been done, it is realized that there are still many limitations so that further research is expected to take a wider sample of companies compared to only LQ45 companies, it is recommended to choose a company that has been exposed to cases of financial statement fraud (financial statement fraud), in order to be able to capture the true picture overall regarding the effect of fraudulent financial statements.

The next researcher is expected to choose different proxies and measurements for each independent variable. Because of the limitations of researchers who cannot prove the opportunity and rationalization factors, it is hoped that the next researcher can use other measurements in the opportunity factor with different variables and proxies such as: nature of industry variables with proxy transactions with special parties (RPT), variables ineffective monitoring with proxies BDOUT, AUDCOMM, AUDCSIZE, EXPERT and other variables such as organizational structure variables and rationalization factors (rationalization) with other proxies such as KAP turnover and total accrual (TATA).

## 5.3 Limitation

The limitation of this study is that the rationalization variable measured using audit opinion proxy is a dummy variable, so the results obtained are less accurate in detecting fraudulent financial statements, the relatively small number of LQ45 company samples so that the impact on research results tends to be less consistent with previous studies.

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