

THE EFFECT OF FINANCIAL STABILITY, EXTERNAL PRESSURE, PERSONAL FINANCIAL NEED, FINANCIAL TARGETS, INEFFECTIVE MONITORING AND AUDIT QUALITY ON DETECTING FRAUD FINANCIAL STATEMENT IN PERSPECTIVE OF FRAUD TRIANGLE

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ABSTRACT

The purpose of this study was to determine whether financial stability, external pressure, personal financial need, financial targets, ineffective monitoring, and audit quality affect the financial statement fraud by collecting empirical evidence. The object of research is the companies from sector property and real estate which listing on the Indonesia Stock Exchange, with research period in 2010-2012. The samples in this study were selected based on purposive sampling method with a total sample of 14 companies. The analysis technique used in this research is multiple regression analysis using SPSS. These results indicate that the variable external pressure, personal financial need and audit quality effect on the financial statements fraud, meanwhile variables financial stability, financial targets, ineffective monitoring had no effect on the financial statements fraud. Variables financial stability, external pressure, personal financial need, financial targets, ineffective monitoring and audit quality simultaneously effect on the financial statements fraud.

Keyword: *Financial Statement Fraud, Fraud Triangle*

INTRODUCTION

Development of business and industry is growing in Indonesia. It is marked by the emergence of new companies in several sectors which the company is not a small company. Development of business and industry lead to competition in the world of business and industry will be more competitive.

Financial statements have a very important role as the basis for decision-making. Auditors have an important role in providing confidence in the fairness of an entity's financial statements. In a financial statement audit designed to provide assurance that the financial statements did not have material misstatements and provide reasonable

assurance about management accountability over the assets of the company (Koroy, 2008:22). Kusumawardhani (2013) argued that the behavior of financial statement fraud is important to the attention so fraud can be detected and can be removed. Various causes that led to the fraud that can be summed up into three factors which lead to fraud are (1) pressure, (2) opportunity and (3) Rationalization. The third factor is exactly what is often called the fraud triangle.

However, the detection of fraud in the financial statements is not easy, as, in recent decades occurred several financial scandals which involve large companies and public accounting firms. One of the largest ever cases involved Enron Corporation with Arthur

Andersen public accountant firm. Enron is one of the major companies in the energy sector. Besides Enron, there are several international companies involved in financial scandals such as Xerox, Walt Disney, World Com, Merck and Tyco. Novianty (2008) stated financial scandals such as financial statement frauds also had occurred in Indonesia, which are the Kimia Farma and Lippo Bank with the involvement of public accounting firm.

Cressey's theory that is quoted by Skousen et al., (2009) states fraud triangle is usually used to detect fraud which occurred in the financial statements. Fraud triangle consists of three components: pressure, opportunity, and rationalization. Then, this concept was adopted in SAS No.. 99. The purpose of the disclosure of the SAS 99 is as auditors guidance for detecting fraud in financial reporting and improve the ability to detect fraud with assesing risk factors for fraud corporate .

Development of financial statement fraud detection methods have been carried out previously by Skousen et al. (2009). This research was presented by enlarging each of the variables then they are developed into several proxies. According to Skousen et al., (2009) the components contained in the fraud triangle can not be observed directly, but it is necessary for the developing and the proxy to measure. According to SAS No.. 99 pressures that led to the fraud in the financial statements can be classified into four types, there are: financial stability pressure, external pressure,

personal financial need and financial targets. Meanwhile the opportunities are classified into 3 types, there are: nature of the industry, ineffective monitoring, and organizational structure. Rationalization is the last part of the fraud triangle, and also the most difficult component to be measured in fraud detection.

Measurement of fraud in the financial statements can use various methods. To measure the fraud that occurred in the financial statements of one proxy that is used earnings management. In fraud detection role of the external auditor is not less important, because the auditor must provide reliable financial reports and avoid fraudulent in order to not mislead the users of financial statements.

Fraud in the financial statements that are not detected can developed into problems that harm in the future. This study was intended to detect fraud in the financial statements using the method analysis of fraud triangle. Research which is conducted by Skousen et al. (2009) have succeeded in developing the research model to detect fraud using analytical methods fraud triangle.

Statement of Problem

Based on this background, the main problems in this study can be formulated as follows: Is variable that consists from financial stability, external pressure, personal financial need, financial targets, ineffective of monitoring, and audit quality partially or simultaneously affect the detection of fraud financial statements? How the analysis of the

effect from variable financial stability, external pressure, personal financial need, financial targets, ineffective of monitoring, and audit quality on financial statements fraud detection?

LITERATURE REVIEW

Fraud

According to Anthony and Govindarajan (2005) fraud refers to misstatement of a material fact and it has done by one party to others with the purpose of deceiving, make others parties feel safe to rely on a fact that adverse him. Whereas according to Elliot and Willingham (1980) in the research by Nguyen (2008) indicates that fraud financial statement is same with fraud management: "fraud financial statement that deliberates by manager can make financial loss to investor and creditor." The definition above indicates that fraud has wide definition as can be seen from fraud category. Anthony and Govindarajan (2005) indicates based on case law, fraud action must comply with five conditions such as: (1) misstatement, (2) material fact, (3) intention, (4) dependence which can be justified, and (5) damage or loss.

Financial Statement Fraud

The definition of fraud financial statement according to American Institute Certified Public Accountant (AICPA) (2002) is an intentional act or omission that the result is in a material misstatement that misleading

to financial statements. According to AICPA fraud in financial statement is associated with several schemes, namely:

1. Manipulation, falsification, or changes of accounting records, supporting documents from financial statements
2. Mistake or deliberate omission in the significant information to the financial statements.
3. Conduct intentionally abuses the principles relating to the number, classification, manner of presentation, or disclosure.

Fraud Triangle Theory

Fraud triangle theory is an idea of the cause of cheating, the first is indicated by Cressey (1953). This theory has gotten with conducted a series of interviews with 113 people who had been sentenced for committing money embezzlement company which is called "trust violatators" or "breach of trust". The first is pressure, it can be a variety of lifestyle, economic demands and others. This one includes matters which related to financial and nonfinancial that make person have a pressure to do fraud. The second is opportunity, it is an opportunity that could lead to fraud. The presence of opportunities arise because fraud perpetrators believe that their activity will not be detected. Opportunity can occur because of weak internal control like less on management control. Skousen et al., (2009) states the last is rationalization, which

is a component from fraud triangle as the most difficult to measure. Rationalization is closely connected with personality and character of a person. It is an essential element of fraud, where the preparators look for justification over their actions.

Earnings Management

Earning management is fraud practice made by managers who involve themselves in the process of financial report with changing it in order to make a profit for themselves. Setiawati (2002) in the research by Guna and Herawaty (2010) state that earnings management as management intervention in the process of financial report with the goal of benefit. Management parties have their own reasons to perform earning management. Earnings management divided into two forms: positive and negative. Positive earning management is earnings management which aims to increase earning or overstate, to increase effectiveness of company operations. Meanwhile, the negative earning management is earning management which aims to decrease earning or understate, to decrease tax paid by a company.

RESEARCH METHOD

This research is designed to see the effect of financial stability, external pressure, personal financial need, financial targets,

ineffective monitoring and audit quality on detecting financial statement fraud in perspective of fraud triangle in property and real estate companies. Population of this research is all property and real estate companies which listed on IDX period 2010 – 2012. The sampling technique is conducted by using purposive sampling method in order to obtain samples in accordance with specified criteria.

The data used in this research is secondary data. Secondary data is the data that has been processed previously by others and has been in the form of publications. The secondary data used in this research is the company's annual financial statements, journals, research and books related to this research. Data collection methods used in this research is a method of documentation and literature.

This study aims to analyze the relationship between the independent variables which are components of the fraud triangle with fraud financial statements. This research uses numbers as an indicator of answer the problems in this study, so this study use quantitative methods to answer the problems. This study consists of 7 (seven) variables: one dependent variable and six independent variables. The definitions and operational of each variable will be explained in detail as follows.

Tabel 1. Variables & Operationalization

Variables	Definition	Measurement
Financial Statement Fraud (Y)	Intentional material statement in the financial statements, proxied by earnings management. Calculated based on discretionary accruals (DA) (modified Jones).	$TACC_{it} = NI_{it} - CFO_{it}$ $TACC_{it}/TA_{it-1} = \beta_1(1/TA_{it-1} + \beta_2(\Delta Rev_t/TA_{it-1} - \Delta Rec_t/TA_{it-1}) + \beta_3(PPE_t/TA_{it-1}) + e$
		$NDACC_{it} = \beta_1(1/TA_{it-1}) + \beta_2(\Delta Rev_t/TA_{it-1} - \Delta Rec_t/TA_{it-1}) + \beta_3(PPE_t/TA_{it-1})$
		$DACC_{it} = TACC_{it}/TA_{it-1} - NDACC_{it}$
Financial stability (X1)	Describe the financial condition of the company in a stable condition is proxied by the ratio of the asset changes	$(Total Assets_t - Total Assets_{t-1}) : Total Assets_t$
External Pressure (X2)	The pressure felt by the management in fulfilling the requirements or of third parties, the leverage ratio	Total Debt : Total Assets
Personal Financial Need (X3)	Company's condition is affected by the financial condition company's proxied by the ratio of stock ownership insiders.	The number of shares owned by insider/Number shares outstanding
Financial Targets (X4)	The achievement of expected by the company within a specified profitability on assets	EBIT : Total Assets
Ineffective Monitoring (X5)	Circumstances which the company does not have an effective monitoring system to monitor the performance of the company, proxied by the	Members of audit committee

	number of members of the audit committee company.	
Audit Quality (X6)	Proxied by auditor reputation. Big Four auditors produce higher quality audits than non-Big Four auditors	Using dummy 1 for the company being audited Big Four audit firm and 0 if the company is audited Four audit fi

Hypothesis proposed in this research is: effect on Total Assets detecting financial statement fraud.

H₁: Financial stability with proxy the percentage change in total assets (ACHANGE) effect on detecting financial statement fraud.

H₂: External pressure with proxy leverage (LEV) effect on detecting financial statement fraud.

H₃: Personal financial need with proxy percentage of insider shareholding (OSHIP) effect on financial statement fraud.

H₄: Financial targets with proxy ratio Return on Assets (ROA) effect on detecting financial statement fraud

H₅: Ineffective monitoring of with proxy the number of audit committee members (AUDITSIZE) effect on detecting financial statement fraud

H₆: Quality audits with proxy reputation auditors (REP_AUD) effect on detecting financial statement fraud.

H₇: Financial stability, external pressure, personal financial need, financial targets, ineffective monitoring and audit quality

Analysis Method

The analysis technique used in this research is multiple linear regression which consists of one dependent variable and six independent variables:

$$DACC_{it} = \beta_0 + \beta_1 ACHANGE + \beta_2 LEV + \beta_3 OSHIP + \beta_4 ROA + \beta_5 AUDCSIZE + \beta_6 Q_AUD + \epsilon_i$$

Description:

β_0 = Coefficient constant regression

$\beta_{1,2,3,4,5}$ = Regression coefficient of each proxy

$DACC_{it}$ = Discretionary accruals for company i in year t

$ACHANGE$ = Ratio of change in total assets in 2010-2011

$AUDCSIZE$ = Number of audit committee members

ROA = Return On Aset ratio

LEV = Leverage Ratio

OSHIP = Ratio of share ownership
by insiders
Q_AUD = Audit quality
 ε = Error

To see the effect of independent variables on the dependent variable in each tested by statistic t. Meanwhile, to see the effect of independent variables to the dependent variable simultaneously uses test statistical F.

RESULT AND DISCUSSION

Financial Stability as a Variable for Detecting Financial Statement Fraud

Based on the hypothesis testing partial financial stability variables are proxied by the ratio of change in assets (ACHANGE) has a significance value of 0.825 is greater than the alpha value of 0.050, it indicates that the variable does not affect the financial stability of financial reporting fraud. Changes in the value of assets owned by the company will provide financial stability good for companies, but still occurs fraud in companies that have good financial stability. In addition to supply one of the greatest assets of the company property is undeveloped land. Along with the development value of land and buildings will increase the tax liability company owned land. So as to reduce the tax value of the company made earning management.

External Pressure as a Variable for Detecting Financial Statement Fraud

The results of the statistical test results show that the partial pressure of external variables that proxy the leverage ratio (LEV) has a significance value of 0.039 is less than the alpha value of 0.050 so that the pressures of external variables affect the financial statement fraud. High leverage ratio indicates the possibility that the company will face greater bankruptcy. Companies with high leverage levels will continue to be considered by creditors in order to maintain the distributed debt can go back in time, so flexibility in the management of cheating will be reduced.

Personal Financial Needs as a Variable for Detecting Financial Statement Fraud

Based on the test results of variable personal financial need that proxied by shares ownership by insiders (OSHIP) has a significance value of 0.029. This value is smaller than the alpha value of 0.05 so that the variables personal financial needs affect to financial statement fraud. Lifestyle managers can also be a pressure for managerial. Managers who have a extravanza lifestyle will tried to earn a great income to meet the needs of high. If the managerial has a large number of shares in the company, this will encourage the managerial commit fraud in order to obtain funds to fulfill their needs.

Financial Targets as a Variable for Detecting Financial Statement Fraud

Financial target variable is proxied by the ratio of return on assets has significance value of 0.095, the value is greater than the alpha value of 0.05, it indicates that the variable financial targets (ROA) has no effect on the fraudulent financial statements (DACC). Financial targets will be pressure for management to always show good performance. Target companies most often used is based on the company's profit. Interested parties such as investors want higher profits to obtain dividends. And also the pressure to obtain the bonus will increasingly provide pressure for managerial to commit financial statements fraud.

Ineffective Monitoring as a Variable for Detecting Financial Statement Fraud

Ineffective monitoring variable that proxied by the number of audit committee members (AUDCSIZE) also has significance value bigger than the alpha value is 0.222 which indicates that the variable has no effect on the ineffective monitoring of financial statements fraud. . In this study, the audit committee is not performing its duties and its role well, because even though the company has an audit committee, but was unable to detect financial statement fraud. This indicates that the formation of an audit committee is mandatory or just to follow the regulations.

Audit Quality as a Variable for Detecting Financial Statement Fraud

Variable audit quality (Q_AUD) based on partial test results has a significance value of 0.002 is less than the alpha value of 0.050. That suggests that audit quality variable affect financial statement fraud variable. Auditors from the big four public accounting firm have the knowledge and experience better than public accounting firm non-big four so that the financial statements were audited by the auditors from big four public accounting firm audit will result in a better quality compared with the audited financial statements by public accounting firm non-big four. Big four public accounting firm has better independent that have the low tolerance for fraudulent practices.

CONCLUSION AND SUGGESTION

This study aims to examine the elements of the fraud triangle and consisting of financial stability, external pressure, personal financial need, financial targets, ineffective monitoring and audit quality in detecting financial statement fraud in companies from property and real estate sector which listed in Indonesia Stock Exchange . From seven hypotheses proposed, four hypotheses accepted and the other three hypotheses rejected. Based on the results of research got result that the partial variables external pressure, personal financial need and audit quality effect on financial statements fraud. Meanwhile, the variable financial stability, financial targets and ineffective monitoring had no effect on the financial statements fraud.

Simultaneously variables financial stability, external pressure, personal financial need, financial targets, ineffective monitoring and audit quality affect the financial statement fraud.

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