

Analysis of Factors Affecting Fraudulent Financial Reporting with Independent Commissioners as Moderation Variable

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ABSTRACT

Objective - This study aims to examine and analyze the effect of pressure, opportunity, rationalization, ability and arrogance on fraudulent financial reporting with independent commissioners as the moderating variable.

Methodology/Technique - The object of this research is all companies listed on the Indonesian Stock Exchange during 2019. The research sample was obtained through purposive sampling method and resulted in 215 companies. The analysis technique used is multiple regression analysis and Moderated Regression Analysis (MRA).

Findings - The results show that pressure, opportunity, rationalization, ability and arrogance had a significant effect on fraudulent financial reporting. The results of the moderation regression analysis show that independent commissioners moderate the effect of pressure and arrogance on fraudulent financial reporting. Meanwhile, independent commissioners did not moderate opportunities, rationalization, and capacity for fraudulent financial reporting.

Novelty - This research contributes to the pentagon fraud theory, which proves that the elements contained in this theory can be used as a basis for analyzing fraud committed by companies, and contributing to the company so that the company's internal control is improved and the presence of an independent board of commissioners is not only a fulfillment of the company's internal control. regulations made by the IDX.

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Keywords: Pressure; Opportunities; Rationalization; Arrogance; Fraudulent Financial Reporting

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1. Introduction

Rapid economic growth encourages companies to remain competitive and able to adapt in looking for business opportunities. In this situation, the company is obliged to show its best performance by providing correct information related to the company's financial statements (Santoso, 2018). As a result, many companies have committed fraudulent practices. Corporate fraud is carried out in various ways, one of which is through financial reports. The fraud problems experienced by companies, of course, have an impact on the national economy. Survey conducted by Pricewaterhousecoopers (2016) in Christian et. al. (2019) show that corporate governance is very important in helping detect corporate fraud.

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Company fraud originates from the presentation of financial statements that are not in accordance with the General Acceptable Accounting Statement (GAAP). Fraudulent financial statements are errors or omissions in the presentation of financial statements that are carried out on purpose or with a specific motive. Wells (2011) states that fraud in financial statements is carried out through forgery, supporting documents or business transactions, alteration or manipulation of financial records, deliberate omission of events, transactions, accounts or other significant information. According to Faradiza (2017), fraud can also be carried out through the application of accounting principles, policies and procedures that are wrong and done deliberately,

Fraud has become a global phenomenon, because it occurs in many countries in various sectors and industries with several different levels (Nindito, 2018). Fraud is caused by motivation and encouragement from external and internal parties of the company (Husnawati et. al. 2017). The large number of frauds that occur has led many researchers to develop theories that can be used to detect fraud. The theory of fraud originates from research by Cressey (1953) which states that there are 3 main factors that cause fraud, namely, pressure, opportunity and rationalization known as the fraud triangle. Then in 2004, Wolfe and Hermanson added another factor that causes fraud, namely capability and it is known as fraud diamond. The development of the theory of cheating continues. Howart (2011) then adds an additional factor that causes fraud, namely arrogance and changing capability with competence. This study uses the fraud pentagon theory as the basis for the analysis of fraud detection that occurs in companies because this theory contains elements of the causes of fraud seen from human behavior factors that are described in detail.

Broadly speaking, human behavior factors are integrated into auditing as a qualitative component (Leibniz et. al., 2014). By knowing the things that trigger fraud, it becomes a starting point for preventing fraud that occurs. This study uses the fraud pentagon theory as the basis for analyzing the detection of fraud that occurs in companies because this theory contains elements of the causes of fraud seen from human behavior factors that are described in detail.

Fraud occurs because of the weakness of the control system in the company. Independent commissioner is a strategic position in carrying out the supervisory function to implement good corporate governance. The presence of the board of commissioners can have an influence on accounting fraud caused by weak internal control (Chtourou et. al. 2001).

There have been many studies on the fraud theory model in financial statement fraud. For example, Mekonnen et. al. (2015) argue that cheating is carried out if someone has a motive and opportunity to commit a crime, but to commit a fraud requires ability and there will always be justification made by the perpetrator of the fraud. In other words, the factors causing fraud to put forward by Mekonnen et. al. (2015) can be used to predict the occurrence of fraud in a company. Likewise, research by Mekonnen et. al. (2015) and Vousinas (2019) research suggests that the most important element that causes someone to commit fraud is the ego which in the fraud pentagon is defined as arrogance. This study replicates the research of Christian et. al. (2019) inspired by the many frauds committed by companies and their impact which greatly affects the sustainability of the company. This study raises the theme of the analysis of factors that influence fraudulent financial reporting with independent commissioners as a moderating variable.

2. Literature Review

2.1 Fraud Pentagon Theory

Fraud pentagon theory is the refinement of the factors that cause fraud which was originally put forward by Cressey (1953) which is known as the fraud triangle theory. Over time, the fraud detection factor proposed by Cressey was later refined into 4 factors by Wolfe and Hermanson (2004) which is known as the fraud diamonds. According to Wolf and Hermanson (2004), fraud will not occur without the right people with the right abilities. Renewal of the fraud triangle to increase the ability to detect fraud by adding a fourth

element, namely capability, which refers to a person's ability to commit fraudulent acts. In some literature it is stated that people with high capacities are able to detect and commit acts of fraud.

After the fraud triangle and the fraud diamond, there is an expansion in the detection of fraud known as the fraud pentagon. In the fraud pentagon, capability is changed to competence, and another element is added, namely, arrogance. Pentagon fraud was introduced by Horwarth (2011). Competence is a person's ability to commit fraud. Meanwhile, arrogance is the arrogant attitude of someone who considers himself capable of cheating.

2.2 Fraudulent Financial Reporting

According to ACFE (2014), fraud in financial statements is fraud committed by management in the form of material misstatement of financial statements that is detrimental to investors and creditors. Based on the ACFE survey form in the form of report the nation in 2014, 2016, and 2018, it shows that fraud in financial statements is the rarest thing however, has the greatest impact when compared to other types of fraud. This fraud is in the form of misstatement in financial statements. According to Wells (2011), financial statement fraud includes several motives, such as:

1. Falsification, alteration, or manipulation of financial records (money records), supporting documents or business transactions;
2. Deliberate omission of events, transactions, accounts, or other significant information as a source of financial statement presentation;
3. Incorrect and deliberate application of the accounting principles, policies and procedures used to measure, acknowledge, report and disclose economic events and business transactions;
4. Deliberate omission of information that should be presented and disclosed regarding the accounting principles and policies used in preparing financial statements.

2.3 Elements in the Fraud Pentagon

2.3.1 Pressure

According to Cressey, pressure refers to the pressure on conditions or circumstances to force cheating. Research conducted by the originator of the fraud triangle theory, who is also a criminologist, reveals that pressure shows the factors that drive a person to behave unethically.

2.3.2 Opportunity

Novita (2019) argues that opportunities for fraud occur due to ineffectiveness in the internal control or governance system, allowing individuals to commit fraud. According to Yulianti (2019), opportunity is an opportunity to commit fraud. Meanwhile, Christian et al. (2019) said that opportunity is a condition where someone has the opportunity to commit fraudulent acts. The main cause of fraud, namely, lack of internal control within the company. Opportunity is closely related to where cheating is committed. Aprilia (2017) states that this situation is used by company management to commit fraud secretly so that it is not known by many people.

2.3.3 Rationalization

Rationalization (rationalizatiaon) is an attempt to justify the perpetrator of a fraud for his act of fraud. Yesiarini and Rahayu (2017) define rationalization as someone with their own thoughts justifying the crimes they commit. Rationalization can also be interpreted as an excuse that seems to justify fraud. Many real

fraudsters know that their actions are wrong, but think they are doing so. According to Agusputri (2019), a form of rationalization that can be carried out by fraudsters is rationalization of subjective judgments.

2.3.4 Competence

Competence is an employee's expertise to ignore internal controls, develop concealment strategies, and observe social conditions to fulfill their personal interests (Siddhiq et. al., 2017). According to Aprilia (2017) competence is the ability that a person has to commit fraud. Faradiza (2019) also argues that the competence referred to in the fraud pentagon is a person's ability to commit fraud, which means that the fraudster's ability to penetrate internal controls in his company, develop sophisticated embezzlement strategies and be able to control social situations.

2.3.5 Arrogance

Arrogance is an arrogant or arrogant attitude for someone who considers himself capable of cheating (Faradiza, 2019). Bawekes (2018) defines arrogance as an attitude that shows that the internal control, policies and regulations of the company do not apply to him and he feels that he is free from policies, regulations, and internal control of the company so he feels not guilty of fraud. Horwart (2012) states that arrogance is an attitude of superiority and greed for criminals who believe that company policies and company procedures do not apply to them.

2.4 Independent Commissioner

An independent commissioner is a member of the board of commissioners who is not affiliated with the board of directors, other members of the board of commissioners and controlling shareholder, and is free from business relationships or other relationships that may affect his ability to act independently or act solely for the benefit of the company (Ginting, 2016). According to the regulations issued by the Indonesia Stock Exchange (IDX), the number of independent commissioners is proportional to the number of shares owned by shareholders who do not play a controlling role, provided that the number of independent commissioners is at least thirty percent (30%) of all commissioners. The presence of independent commissioners is also predicted to affect the level of fraud that occurs in the company.

2.5 Hypothesis

- H1: Pressure has an effect on fraudulent financial reporting.
- H2: Opportunities have an effect on fraudulent financial reporting.
- H3: Rationalization has an effect on fraudulent financial reporting.
- H4: Competence has an effect on fraudulent financial reporting.
- H5: Arrogance has an effect on fraudulent financial reporting.
- H6: Independent commissioners moderate the effect of pressure on fraudulent financial reporting.
- H7: Independent commissioners moderate the effect of opportunities on fraudulent financial reporting.
- H8: Independent commissioners moderate the effect of rationalization on fraudulent financial reporting.
- H9: Independent commissioners moderate the effect of ability on fraudulent financial reporting.
- H10: Independent commissioners moderate the effect of arrogance on fraudulent financial reporting.

3. Research Methodology

This study uses a quantitative and correlational approach, which aims to identify the relationship between one or more variables. The population in this study are all companies listed on the Indonesian Stock Exchange (BEI). The samples were determined by purposive sampling with the following criteria:

1. Companies listed on the Indonesian Stock Exchange (IDX) in 2019.
2. Companies that publish complete annual financial reports for 2019.
3. Financial reports are presented in rupiah currency.
4. Companies that have positive profits.
5. The company was not delisted from the IDX during the observation period.

Variable Measurement

Variable	Proxy	Measurement
Fraudulent financial reporting	Fraud Score	F-Score = RSST Accrual + Financial Performance
Pressure	Change of total asset	$ACHANGE = \frac{\text{Total Asset } (t) - \text{Total Asset } (t - 1)}{\text{Total Asset } t - 1}$
Opportunity	Nature of industry	$RECEIVABLE = \frac{\text{Receivable } t}{\text{Sales } t} + \frac{\text{receivable } t - 1}{\text{sales } t - 1}$
Rationalization	The number of women on the board of directors	$\frac{\text{The number of women on the board of directors}}{\text{Number of female boards of directors}} \times 100\%$ = $\frac{\text{All number of boards of directors}}{\text{All number of boards of directors}} \times 100\%$
Competence	Direction Changes	Dummy variable
Arrogance	CEO's Politician	Dummy variable
Independent Commissioners	The number of independent commissioners	$\frac{\text{Independent commissioners}}{\text{The number of independent commissioners}}$ = $\frac{\text{The number of independent commissioners}}{\text{The total number of members of the board of commissioners}}$

4. Results and Discussion

This study uses multiple regression analysis to examine the influence of pressure, opportunity, rationalization, ability and arrogance variables on financial reporting fraud, as well as moderate analysis regression (MRA) to test the effect of independent commissioners in moderating the influence of pressure, opportunity, rationalization, ability, and arrogance. against corporate fraud. The coefficient of determination adjust R2 has a value of 0.352 or 35.2%. This means that the dependent variable in this study is explained as much as 35.2% by the dependent variable, and the remaining 64.8% is explained by other variables not included in this study, this is shown in the following table.

Table 4.1. Determination Coefficient Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	, 606a	, 367	, 352	2.09147

a. Predictors: (Constant), Arrogance, Rationalization, Pressure, Opportunity, Competence

The results of multiple regression analysis are shown in the following table.

Table 4.2. Multiple Regression Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-, 206	, 239		-, 861	, 390
Pressure	3,482	, 646	, 300	5,387	, 000
Opportunity	, 871	, 177	, 278	4,927	, 000
Rationalization	1,717	, 712	, 134	2,411	, 017
Competence	, 949	, 453	, 178	2,094	, 037
Arrogance	, 887	, 440	, 170	2,017	, 045

a. Dependent Variable: Fraudulent Financial Reporting

4.1 Pressure has an effect on fraudulent financial reporting

The results of the regression analysis show that there is a positive effect on fraudulent financial reporting. The results of these studies support the formulation of the hypothesis which states that pressure has an effect on corporate fraud. Hence, pressure has a partial significant positive effect on fraudulent financial reporting.

The results of this study support the Pentagon's fraud theory which assumes that pressure arises as a result of internal and external forces forcing fraud. Pressure is a state or condition that forces you to commit fraud (Cressey, 1953). When a company is in a stable condition, its value will increase from the perspective of investors, creditors and society. Thus, when a company feels threatened by economic conditions, industry or the entity's operating situation, the company tends to manipulate or cheat in its financial reporting.

The results of this study are consistent with research by Vousinan (2019) which shows that the pentagon fraud theory is a suitable analytical tool for detecting fraud, Dechow et al. (2011) show that pressure has an effect on accounting fraud, Skousen (2009), Mulfrod and Comiskey (2011) show that pressure has a significant effect on fraud. This is different from the research results of Yulianti et. al. (2019), Bawekes (2018), and Quraini and Rimawati (2018) who state that pressure has no effect on fraud.

4.2 Opportunity has an effect on fraudulent financial reporting

The significance value of the opportunity variable shows a value of 0.000 which is smaller than the significance value of $\alpha = 0.050$, with a regression coefficient value of 0.871, indicating a positive direction and a statistical t value of 4.927. This indicates that the opportunity partially has a positive and significant effect on fraudulent financial reporting.

This study proves that the Pentagon's fraud theory states that fraud can occur if there is an opportunity for individuals to commit fraud. Skousen (2008) in his research also confirms that one of the causes of fraud is due to opportunity. Opportunities are used when the risk level of cheating is small. The opportunity for fraud in the company can occur due to three conditions, namely ineffective monitoring, the nature of the industry, and the organizational structure. Nature of industry that occurs in a company such as receivables, can be used by the company to commit fraud.

This research supports previous research which states that opportunities have a significant effect on financial statement fraud (Apriliana & Agustina, 2017; Christian et. al., 2019; Nindito, 2018; Faradiza, 2019; Bawekes, 2017 and Apriliana, 2017). However, the results of this study are different from the research of Yulianti et. al., (2019), Husmawati et. al., (2017), Akbar (2017), Quraini and Rimawati (2018), Triyanto (2019) whose research results show that opportunity has no effect on fraud.

4.3 Rationalization has an effect on fraudulent financial reporting

The test results of the opportunity regression coefficient on fraudulent financial reporting show a value of 1.717, with a statistical t value of 2.411, and a probability value of 0.017 which is smaller than the significance value of $\alpha = 0.050$, which means that rationalization has a significant effect in a positive direction on fraudulent financial reporting, and the third hypothesis is accepted.

The results of this study are in line with the fraud Pentagon theory which states that rationalization is an attempt to justify fraudsters for their acts of fraud. The rationalization is carried out because the perpetrator of fraud considers that cheating is different from a criminal act. The number of women board members used as an indicator to measure rationalization has an influence on the occurrence of fraud. The percentage of women board of directors able to indicate that rationalization can take place when someone commits fraud. Although according to several studies such as Kelley et. al., (1990), Reynolds (2006), and Zahra et. al., (2007) stated that the most likely to practice rationalization or attempts at justification are men,

The results of this study support Danuta's (2017) study which states that rationalization is one of the factors causing fraud. This research has the best comparison with the research of Lou and Wang (2009), Triyanto (2019), Faradiza (2018) and Bawekes (2018) which states that rationalization is not a factor in the occurrence of fraudulent financial reporting.

4.4 Competence has an effect on fraudulent financial reporting

The test results show that the fourth hypothesis is accepted. The significance value of the ability to fraudulent financial reporting is 0.037, which is smaller than the significance value $\alpha = 0.050$, with a coefficient of determination of 0.949 and a statistical t value of 2.094. This means that the ability to have a significant effect on fraudulent financial reporting. Thus, it can be stated that the ability partially affects financial reporting fraud.

The results of this study are in line with the Pentagon's fraud theory which states that ability is one of the factors causing fraud. In the fraud pentagon, it is explained that competence is a person's ability to commit fraud, which means that the capabilities of the perpetrators of fraud are. This study proves that people with high capacity, such as the board of directors, who understand internal control within the company and have more access to information within the company, have an influence on company fraud. Changes in the board of directors in the company's financial statements may occur due to the transfer of authority resulting from the GMS. Changes made by the company were driven by the desire to improve financial performance from the previous period (Apriliana & Agustina, 2017).

The results of this study are in line with Ruankew's (2016) research which shows that ability has an effect on fraudulent financial reporting, as well as research by Nurbaiti and Hanafi (2017) which states that the projected ability with a change of directors affects the occurrence of deviations in an organization.

4.5 Arrogance has an effect on fraudulent financial reporting

The regression results show a significant effect on fraudulent financial reporting. The arrogance coefficient value shows a value of 0.887 with a statistical t value of 2.017 and the probability value shows a value of 0.045 which is smaller than the significance value of $\alpha = 0.050$. Thus, it can be stated that partly arrogance has a significant positive effect on fraudulent financial reporting.

This study supports the fraud pentagon theory, which states that arrogance is an attitude of superiority owned by company owners. Any internal control does not limit the CEO to act because of the power he has. A high level of arrogance can lead to fraud because the arrogance and superiority of the CEO makes the CEO feel that any internal control does not apply to him because of his status and position. The owner of the company will feel that the position they currently have is a shield to protect themselves from fraud. This is

because the company owner feels that the policies and procedures applied in the company do not apply to him. The results of this study support the research of Wang et. al.

Sarpong et. al. (2019) in their research suggests that CEOs who have a high level of self-confidence will lead to an arrogant corporate leadership style. A high level of arrogance does not lead to no regret in a person when committing fraud in the company (Yeung & Shen, 2019). CEOs with high levels of arrogance tend to be more courageous in manipulating financial statements. This research is inversely proportional to the research results of Triyanto (2019), Nindito (2018) and Aprilia (2017) which state that arrogance has no effect on financial statement fraud.

Table 4.3. Moderation Regression Test Results

Model	Unstandardized Coefficients		Standardized	t	Sig.	
	B	Std. Error	Coefficients			
1	(Constant)	-1,479	, 931		-1,589	, 114
	Pressure	15,326	3,119	1,322	4,913	, 000
	Opportunity	1,814	, 694	, 578	2,614	, 010
	Rationalization	-, 365	2,851	-, 028	-, 128	, 898
	Competence	1,722	1,813	, 323	, 950	, 343
	Arrogance	4,852	1,768	, 929	2,745	, 007
	Independent Commissioner	3,381	2,233	, 134	1,514	, 132
	X1_M	-27,552	7,258	-1,031	-3,796	, 000
	X2_M	-2,508	1,665	-, 338	-1,507	, 133
	X3_M	4,006	6,877	, 131	, 582	, 561
	X4_M	-1,278	4,364	-, 106	-, 293	, 770
	X5_M	-9,980	4,317	-, 819	-2,312	, 022

Dependent Variable: Fraudulent financial reporting

4.6 Independent commissioners moderate the effect of pressure on fraudulent financial reporting

The sixth hypothesis proposed in this study is that independent commissioners moderate the effect of pressure on corporate fraud. The results of this hypothesis testing show a significance value of $0.000 < 0.050$, with a regression coefficient of -27.552 and a statistical t value of -3.796 , which means that the independent commissioner moderates the effect of pressure on fraudulent financial reporting. In a company, an independent commissioner acts as a supervisory board acting independently or acting solely for the benefit of the company. The high effectiveness of the board of commissioners can minimize fraud even though there is high pressure. The independent board of commissioners has the responsibility to supervise and ensure that everything goes according to standard operating procedures (SOP).

An independent commissioner is a strategic position in carrying out a supervisory function to implement good corporate governance (Pamungkas et. al., 2018). Boards that are dominated by internal directors tend to have weak corporate governance. With an independent board of commissioners, accounting fraud will be minimized, because of the supervision by an independent board of commissioners where the independent board of commissioners is an independent party representing shareholders whose task is to specifically oversee all manager's actions.

This is in line with the research of Chtourou et. al. (2001) which concluded that when there is an independent board of commissioners, it can affect accounting fraud caused by a lack of supervision. In contrast to the research results of Pamungkas et. al. (2018), which show that independent commissioners do not moderate the effect of the relationship between pressure on accounting fraud.

4.7 Independent commissioners moderate the effect of opportunities on corporate fraud

The results of the hypothesis testing show a significance value of 0.133 is greater than the significance level of $\alpha = 0.050$, with a coefficient of -2.508 and a statistical t value of -1.507, which means that independent commissioners do not moderate the effect of opportunities on corporate fraud.

The presence of an independent board of commissioners affects the level of fraud committed in a company. According to Fama and Jensen (in Suyanto & Supramono, 2010) the more independent commissioners are, the more effective supervision of manager performance is. However, the independent board of commissioners in a company has so far been only a form of compliance with regulations from the IDX. Where every company should have a proportion of independent commissioners of at least 30% of all members of the board of commissioners (Bawekes, 2018). Because, in reality, in companies, an independent board of commissioners is still not a necessity. Thus, although the proportion of the independent board of commissioners has met the amount set by the IDX,

The results of this study are inversely proportional to the statement of Chtourou et. al. (2001) who concluded that when there is an independent board of commissioners, it can affect accounting fraud caused by a lack of supervision. Because, independent commissioners are a strategic position in carrying out their supervisory function to implement good corporate governance (Pamungkas et. al., 2018). The results of this study are in line with research by Pamungkas et. al. (2018) which states that independent commissioners are unable to moderate the effect of opportunities on fraudulent financial reporting.

4.8 The independent commissioner moderates the effect of rationalization on fraudulent financial reporting

The test results show a significance value of 0.561 greater than 0.050, with a regression coefficient value of 4.006, and a statistical t value of 0.582, which means that the independent commissioner moderates the effect of opportunities on financial reporting fraud which is not significant. This means that the independent board of commissioners is unable to carry out its function as a supervisory board that acts independently when there is a rationalization by the perpetrator of fraud.

The presence of an independent board of commissioners is considered capable of increasing the effectiveness of company monitoring, so that the level of fraud is lower (Rahman, 2011). However, something different happens when many interventions occur to the board of commissioners which results in non-objectivity in the monitoring carried out by the independent board of commissioners so that the number of independent commissioners in a company is not a significant factor in improving the company's operational monitoring (Sihombing & Rahardjo, 2014). The presence of the independent board of commissioners is only in fulfillment of the rule that at least the number of members of the independent commissioner board is at least 30% of the total members of the board of commissioners. This is inversely proportional to the study of Chtourou et. al. (2014) and in line with the research results of Pamungkas et. al. (2018).

4.9 Independent commissioners moderate the effect of ability on fraudulent financial reporting

The test results show a significance value of 0.770 which is greater than the significance level of 0.050, with a regression coefficient of -1.278, and a statistical t value of -0.293, which means that the independent commissioner moderates the effect of the ability on fraudulent financial reporting is not significant. The existence of an independent board of commissioners in general will provide an increasingly independent and objective management for the company.

So far, the independent board of commissioners in a company is only a form of compliance with regulations from the IDX. Where every company should have a proportion of independent commissioners of at least 30% of all members of the board of commissioners (Bawekes, 2018). Because, in reality, in

companies an independent board of commissioners is still not a necessity. Thus, even though the proportion of the independent board of commissioners has met the amount set by the IDX, it is still unable to weaken or strengthen the relationship between the capabilities of financial reporting fraud. The results of this study are inversely proportional to the statement of Cthourou et. al. (2001) which states that when there is an independent board of commissioners it can affect accounting fraud caused by a lack of supervision. However, it is in line with the research of Pamungkas et. al., (2018).

Internal control that functions to monitor all company activities becomes a control system that should be able to reduce the occurrence of fraudulent financial reporting. Therefore, the existence of a board of commissioners as a board member who is able to act independently should not only be a necessity for regulatory compliance.

4.10 The independent commissioner moderates the effect of arrogance on fraudulent financial reporting

The regression analysis test results show a significance value of 0.02 which is smaller than the significance level of 0.05, with the regression coefficient of -9.980, with a statistical t value of -2.312, which means that the independent commissioner significantly moderates the effect of arrogance on fraudulent financial reporting.

This study supports the research of Chtourou et. al. (2001) which concludes that when there is an independent board of commissioners it can affect accounting fraud caused by a lack of supervision. An independent commissioner is a strategic position in carrying out a supervisory function to implement good corporate governance (Pamungkas et. al., 2018). Boards that are dominated by internal directors tend to have weak corporate governance. With an independent board of commissioners, accounting fraud will be minimized, because of the supervision by an independent board of commissioners because, an independent board of commissioners is an independent party representing shareholders whose task is to specifically oversee all manager's actions.

Hence, even though the CEO of a company who is also a politician and has many connections who help in the smooth running of his business, it can be suppressed by the composition of the independent board of commissioners in a company. The more the number of members of the independent board of commissioners in a company, the higher the level of supervision in a company.

The results of this study are in line with the research of Cthourou et. al. (2001) which states that when there is an independent board of commissioners it can affect accounting fraud caused by a lack of supervision. This research is also inversely proportional to the results of research by Pamungkas et. al., (2018) which shows that independent commissioners moderate the effect of arrogance on fraud is not significant.

5. Conclusion

After conducting multiple regression testing and moderating regression analysis, it can be concluded that pressure, opportunity, rationalization, ability, and arrogance have a partially significant effect on fraudulent financial reporting, and independent commissioners significantly moderate the effect of pressure and arrogance on fraudulent financial reporting. On the other hand, independent commissioners did not moderate the effect of opportunity, rationalization and ability on fraudulent financial reporting.

This research contributes to the Pentagon fraud theory, which proves that the elements contained in this theory can be used as a basis for analyzing fraud committed by companies, and contributing to the company so that the company's internal control is improved and the presence of an independent board of commissioners is not only a fulfillment of the company's internal control. regulations made by the IDX.

This study still has many limitations so that future researchers with the same topic should consider the following suggestions. Because there are still elements in the theory of Pentagon fraud that are difficult to measure if only using quantitative methods, such as rationalization and ability, further researchers are advised

to use qualitative methods or use a combination of qualitative and quantitative methods, and emphasize the interview method for data collection. Future researchers should increase the observation period in their research and focus on one or several company sectors and consider the use of proxies that are more suitable for the variables used.

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