ИКОНОМИЧЕСКИ ИЗСЛЕДВАНИЯ
ECONOMIC STUDIES

Volume 33(4), 2024

Supriatiningsih[1]
Muhamad Taqi[2]
Lia Uzliawati[3]
Munawar Muchlish[4]

DETERMINANTS OF THE TRIANGLE MODEL ON FRAUD FINANCIAL REPORTING WITH INSTITUTIONAL OWNERSHIP AS A MODERATION VARIABLE[5]

The goal of this study is to use the triangle theory to investigate the characteristics that support fraudulent financial reporting. In this study, the dependent variable is false financial reporting, and the independent variables are pressure, which is a proxy for personal financial need and opportunity, which is a proxy for industrial nature, rationalization, and institutional ownership. Because they include numerous units and time periods, the data used fall under the time series and cross sections category. 17 businesses that are included in the 2017–2021 Sri Kehati stock index serve as the sample. The findings demonstrated that Personal Financial Need (OSHIP) had a negative and significant impact on fraudulent financial reporting, whereas the Nature of Industry (REV) had no impact.

Keywords: fraudulent financial report; fraud triangle; institutional ownership
JEL: G32; G02; M1; G34; Z1

1. Introduction

Financial reporting fraud is a type of fraud that is familiar to auditors who conduct general audits (opinion audits). According to Hidayat et al. (2022) fraud, related to the presentation of financial reporting, is a top priority for the attention of auditors, the public or non-governmental organizations, but is not a concern for forensic accountants. The actions taken by officials or executives of a company in fraudulent financial reporting are to manipulate financial reports that aim to cover up actual financial conditions so that financial reporting

---

[1] *Supriatiningsih, Sultan Ageng Tiratayasa University, Banten, Indonesia, Universitas Teknologi Muhammadiyah Jakarta, e-mail: nining1975@yahoo.com.*

[2] *Muhamad Taqi,. Associate Professor at the Faculty of Economics and Business at Sultan Ageng Tirtayasa University, Banten, Indonesia. e-mail: muhamad.taqi@untirta.ac.id, Corresponding Author.*

[3] *Lia Uzliawati**,** Associate Professor at the Faculty of Economics and Business, Sultan Ageng Tirtayasa University, Banten, Indonesia, e-mail: uzliawati@untirta.ac.id.*

[4] *Munawar Muchlish. Associate Professor at the Faculty of Economics and Business at Sultan Ageng Tirtayasa University, Banten, Indonesia, e-mail: muchlish_ak@untirta.ac.id.*

[5] This paper should be cited as: *Supriatiningsih, Taqi, M., Uzliawati, L., Muchlish, M. (2024). Determinants of the Triangle Model on Fraud Financial Reporting with Institutional Ownership as a Moderation Variable. – Economic Studies (Ikonomicheski Izsledvania), 33(4), pp. 75-89.*

looks good and profitable (Association of Certified Fraud Examiners, 2020). An example of a case of fraudulent financial reporting is PT. Garuda Indonesia Tbk. Garuda Indonesia claims to record brilliant financial performance in 2018, with a net profit of 11.33 billion. However, the two company commissioners refused to sign the financial statements because they suspected there were irregularities in recording transactions in order to polish the 2018 financial statements. The two commissioners agreed that one of the cooperation transactions with PT. Mahata Aero Teknologi, a start-up company providing on-board wifi technology, which is required as revenue by management.

Fraud is unlikely to occur if there are no things that make someone commit the fraud. If a company wants to avoid fraud, then the company must find out and analyze what things can motivate someone to commit fraud. The above cases prove that there is an imbalance of information between investors and management which provides an opportunity for management to commit fraudulent financial reporting. The theory of fraud used to determine that a company is likely to experience fraud is the polemic theory put forward by Cressey in 1953 in Dorminey et al. (2012) and Skousen et al. (2009) which states that pressure, opportunity and rationalization can encourage fraud occurs. The adoption of the triangle theory is supported by professional accountants, academics and various institutions (Skousen et al., 2009). The purpose of issuing SAS No. 99 is that the auditor's effectiveness increases in detecting fraud by assessing the company's fraud risk factors. Research on this theory has been carried out by Skousen et al. (2008) which tested the effectiveness of the adoption of the fraud risk factor framework by Cressey in SAS No. 99 (Widarti, 2015).

The implementation of good corporate governance practices can increase compliance and improve company performance, so good corporate governance practices can prevent fraudulent financial reporting in companies, which affects the high impact of the fraud triangle on fraudulent financial reporting. Researchers measure corporate governance with institutional ownership because the presence of institutional ownership is considered an effective control mechanism for any decision made by managers, and in addition, the effect of institutional ownership indicates a strong governance mechanism in monitoring corporate governance performance (Ibrahim et al., 2022; Kalbuana et al., 2023).

Research related to the causes of fraudulent financial reporting with the triangle theory has been carried out by Tiffani et al. (2009); Rengganis et al. (2019); Surjaatmaja (2018) where the results of the research are pressure has an effect on fraudulent financial reporting, while Puspitha & Yasa, (2018) states that pressure has no effect on financial statement fraud, Rengganis et al., (2019); Budiyono & Arum (2020); Rohmatin et al., (2021) states that opportunity has an effect on fraudulent financial reporting, inversely proportional to the results of research from Budiyono & Arum (2020) which states that rationalization has an effect on fraudulent financial reporting, whereas according to rationalization has no effect on fraudulent financial reporting (Rengganis et al., 2019; Rohmatin et al., 2021).

Institutional ownership is unable to moderate the effect of Personal Financial Need (OSHIP) on fraudulent financial reporting, research results from Sembiring & Trisnawati (2019); Ibrahim et al. (2022); Apriliana & Agustina (2017), inversely proportional to the results of research from Budiharjo et al. (2020) which states that institutional ownership is able to moderate the influence of personal financial need on fraudulent financial reporting.

Institutional ownership is not able to moderate the influence of industry characteristics (REV) on fraudulent financial reporting (Murtado et al., 2022). In contrast to the results of research from Wulandari & Maulana (2022), institutional ownership is able to moderate the influence of the nature of industry on fraudulent financial reporting. Institutional ownership is not able to moderate the effect of rationalization on fraudulent financial statements. This research is supported by Wulandari & Maulana (2022) and Murtado et al. (2022), this is different from the results of research from Liu & Wu (2020) that institutional ownership is able to moderate the effect of rationalization on fraudulent financial statements.

In accordance with the description above as well as the phenomena and research gaps, the results of previous studies still have many inconsistencies. This study has differences from previous researchers. This study uses a sample of companies listed on the Sri Kehati stock index. Research on these samples has not been carried out by previous researchers. This research examines financial targets, ineffective monitoring, and auditor turnover. The moderating variable of institutional ownership is proxied by the audit committee because it is considered to have an influence on fraudulent financial reporting.

2. Literature Review and Hypothesis

2.1. Agency Theory

According to Eisenhardt & Eisenhardt (2018), there are three assumptions in the agency theory of human nature: first, humans are generally more concerned with themselves (self-interest), secondly they have limited thinking power about perceptions of the future and finally, humans always avoid risks Uzliawati, et al. (2023). The third reason is human nature whose reliability cannot be guaranteed and the information conveyed sometimes does not match the real conditions so that in general it can be said that information is asymmetric (Kalbuana et al., 2022; Taqi et al., 2021; Uzliawati et al., 2023).

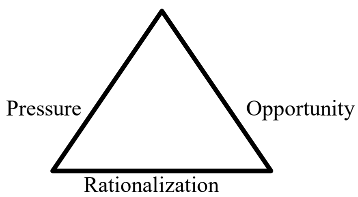
This theory is basically used to align between the goals principal with the agent. However, in reality, the goals between the principal and agents often clash. Mekling (1976) and Kalbuana et al., (2023) further explained with this conflict of interest, it is possible for it to occur some actions that are intentional as opportunistic attitudes (opportunistic behaviour) within the scope of management companies like: a) The amount of uncollectible accounts (bad debt) is reported in nominal terms bigger than it really is; b) The amount of sales results is reported with a modest increase significant; c) The emergence of the need for additional funds to the principal for support the implementation of ongoing projects; d) Preparation of multiple financial reports made as needed by company management officials

The implication in question is that if the delegation of authority is given from the principal to the management is not carried out properly, then the problem of cheating will occur (Jannah et al., 2020; Luwihono et al., 2021). Improper authority management as the recipient of authority from the principal will utilize existing opportunities/opportunities/gaps in order to fulfil interests and objectives personal with actions that are not justified, As for the interests or Management's personal goals can arise from a variety of factors (Abadi et al., 2021; Aliyyah et al., 2021; B. Endarto et al., 2021; Budi Endarto et al., 2021). If Referring to the context of fraud, the basic things that need to be known are fraud theory. Fraud theory discusses several aspects that are considered to be triggers for the emergence of fraud. So this is what comes next agency theory can be integrated with fraud theory.

2.2. Fraud Triangle Theory

Fraud triangle theory or in other words the fraud triangle which is the basic theory regarding the causes of fraud. This theory was first put forward by Cressey (1953) and it can be concluded that there are three conditions of fraud namely pressure, opportunity and rationalization (Kalbuana, Kusiyah, et al., 2022; Prasetyo et al., 2021). According to SAS No. 99 in Kayoi (2019), there are four general types of conditions that occur under pressure, these conditions are financial stability, financial targets, personal financial need and external pressure. Opportunities often occur due to weak internal accounting system controls, inefficient management oversight, or deviation and abuse of position and automation. This condition can be carried out by anyone and at any time, so it requires supervision of the organizational structure from the top level to the lower level (Skousen et al., 2009).

Figure 1. Triangle fraud



Source: triangle (Cressey, 1953).

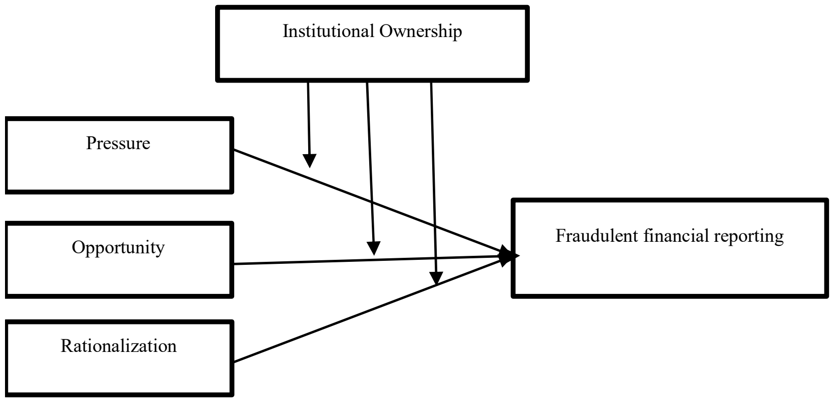
2.3. Institutional Ownership

Institutional Ownership is the percentage of shares owned by institutional investors, such as insurance companies, banks, investments and institutional or corporate ownership (Triyani et al., 2019). Institutional investors can be divided into two, namely active investors and passive investors. Active investors are investors who want to be involved and active in managerial decision-making, while passive investors do not really want to be involved in managerial decision-making.

2.4. Fraudulent financial reporting

Fraud is fraud committed by the management of a company, presenting financial reports incorrectly, which is of course detrimental to investors and related parties. Deliberate mistakes due to the financial condition of a company are made by making financial statements that are wrong either from numbers or in disclosing financial statements that aim to deceive users of financial statements (Hidayat et al., 2022).

Figure 2. Research Conseptual Framework



Source: author's data.

2.5. Research Hypothesis

2.5.1. Effect of pressure on fraudulent financial reporting

Pressure is an incentive for people to commit fraud. Financial and non-financial are the scope of pressure (Widarti, 2015). An example in terms of finance is the urge to have material goods. Whereas non-financial is what encourages someone to commit fraud to cover up poor performance (Ibrahim et al., 2022). The pressure that is proxied by personal financial need is the company's financial condition which is influenced by the financial condition of the company's executives (Skousen et al., 2009, Diansari & Wijaya, 2019). Ownership of shares of managers, directors or the board of commissioners of the company affects the company's financial condition. The results of research from Skousen et al. (2008); Sari & Nugroho, (2020); and Khamainy et al., (2022) that financial personal need influences fraudulent financial reporting.

H_1 = Personal Financial need has a positive effect on fraudulent financial reporting

2.5.2. Opportunity impact on fraudulent financial reporting

Opportunity or opportunity is an ideal state of a company in the industry (Diansari & Wijaya, 2019). According to Skousen et al. (2008) balances in certain accounts will be determined in large part according to estimates and subjective judgments. Accounts receivable and inventories require subjective assessment in estimating uncollectible accounts Summers & Sweeney (1998) and Skousen et al. (2009). The results of research from Putra (2019) and Fadli & Junaidi (2022) opportunity have an effect on fraudulent financial reporting. Based on the description, the following hypothesis is proposed:

H_2 = Nature of industry has a positive effect on fraudulent financial reporting.

2.5.3. The effect of rationalization on fraudulent financial reporting

The proxy for rationalization is a change of auditors. The auditor has an important role in overseeing the company's financial reporting where there are indications of fraud. Companies that commit fraud more often change auditors, because company management tends to minimize detection by old auditors related to fraudulent financial reporting Tiffani et al. (2009). The results of research from Sabaruddin (2022) and Taqi et al., (2021) state that rationalization has an effect on fraudulent financial reporting, this is inversely proportional to Apriliana & Agustina (2017).

H_3 = Financial rationalization has a positive effect on fraudulent financial reporting

2.5.4. Institutional ownership in moderating the influence of personal financial need (Oship) variables on fraudulent financial statements.

The lower the funding ratio of a company, the higher the potential for fraud in financial reporting, and vice versa, because in dealing with pressures that occur the company requires additional debt or external sources of financing so that the company remains competitive, including financing research expenditures or capital (Skousen et al., 2008).

H_4 = Institutional ownership is able to moderate the variable personal financial need for fraudulent financial reporting.

2.5.5. Institutional ownership in moderating the influence of the nature of industry variables on fraudulent financial statements

Institutional ownership is one indicator of measuring good corporate governance. The monitoring mechanism is carried out by institutional ownership in every decision made by the manager, besides that it reduces the occurrence of engineering in financial reports (Yahya et al., 2021). The existence of good corporate governance practices in a company is considered capable of suppressing fraudulent financial reporting. The higher the implementation of GCG, the higher the opportunity level for fraud can be reduced, which will reduce the potential for fraudulent financial statements (Samukri et al., 2022).

H_5 = Institutional ownership can reduce the volatile nature of the field in the area of fraudulent financial reporting.

2.5.6. Institutional ownership in moderating the effect of rationalization variables on fraudulent financial statements

Based on agency theory, the more concentrated ownership, the principal has incentives to monitor agents so that agents act in accordance with the interests of owners, institutional ownership inhibits managers from acting opportunistically so that shareholder expectations are achieved (Hidayat et al., 2022). Institutional ownership can reduce the rationalization of companies that cause fraudulent financial reporting. Institutional ownership can supervise management and participate in decision-making, especially regarding auditor changes

(Ibrahim et al., 2022). The higher the rationalization, the higher the probability of management to commit fraudulent financial reporting, in other words, institutional ownership can weaken the relationship between rationalization and fraudulent financial reporting.

H_6 = Institutional ownership is able to moderate the variable nature of industry on fraudulent financial reporting.

3. Research Methods

This study is a quantitative study that focuses on the financial performance of a company and measures the extent to which fraud is possible in the use of a company's financial statements. The data used are the financial reports of companies incorporated in Sri Kehati Indonesia Stock Exchange from 2017 to 2021 obtained from the official website www.idx.co.id and the official websites of 17 companies. The data used belong to the category of time series and cross-sections because they contain many units and time periods. The combination of time series and cross-section is also called the panel data method. Several methods are used to estimate model parameters using panel data in the form of pooled least squares (joint effect) and fixed effects models. The independent variables in this study are personal financial need pressure (OSHIP), industry agency opportunity (REV) and rationalization (TATA), institutional ownership as a moderating variable, and fraudulent financial reporting as a dependent variable.

3.1. Operational variable definitions

3.1.1. Dependent Variable

Fraudulent financial reports

According to the Association of Certified Fraud Examiners (2020), fraudulent financial reporting is a knowing act or omission that results in a material misstatement that harms investors or creditors. According to Ibrahim et al. (2022) to find out whether the company is doing the act of fraudulent financial statements is to use the formula Beneish Model. The Beneish Model is a fraud detection method compiled based on overall data from accounting and auditing enforcement releases (AAERs) issued by the SEC in the period 1982-1992. This model uses data that can be retrieved from financial reports company, which will then produce the M-Score. This M-score will indicate whether there is fraud in the financial statements or not. If the results of this M-score exceed the value of -2.22, then the company is categorized as committing fraud, whereas if the result is less than -2.22, then the company is classified as not committing fraudulent financial statements. According to Ibrahim et al., (2022), companies with high Beneish scores have the potential to commit fraudulent financial reporting. Likelihood of occurrence of corporate fraud. M-score calculation uses the results of each of these variables and puts them in the formula as follows:

$$\text{M-Score} = -4{,}84 + 0{,}92{*}DSRI + 0{,}528{*}GMI + 0{,}404{*}AQI + 0{,}892{*}SGI + 0{,}115{*}DEPI - 0{,}172{*}SGAI + 4{,}679{*}TATA - 0{,}327{*}LVGI$$

3.1.2. Independent Variable

a. Personal financial need

The financial condition of company executives according to C. J. Skousen et al., (2009) affects the company's financial condition. Shares owned by insiders explain that claim rights to company income and assets are owned by managers (Diansari & Wijaya, 2019). The level of fraudulent financial reporting occurs is influenced by the share ownership structure, so personal financial need (OSHIP) can be calculated using the formula:

$$\text{OSHIP} = \frac{\text{Shareholder by owner}}{\text{Total shareholder}}$$

b. Nature of industry

Opportunity is a condition that makes it possible for someone to commit a crime ((Novarina & Triyanto, 2022). Acts of fraud committed by the perpetrators according to their beliefs will not be detected. Opportunity is proxied by the nature of the industry where the ideal conditions for a company are in the industry. One of the characteristics of the industry in a company is the condition of receivables (Himawan & Karjono, 2019). According to Skousen et al., (2015) and Novarina & Triyanto, (2022), a company is said to be good if the company can reduce and reduce the amount of company receivables and is able to further increase the receipt of the company's cash flow. The nature of industry is calculated using the following formula:

$$\text{NI} = \frac{\text{Receivable t} - \text{Receivable t-1}}{\text{Sales t} \qquad \text{Sales t-1}}$$

c. Rationalization

Rationalization is a dishonest attitude towards an action taken by management or employees and justifies this action (Novarina, Triyanto, 2022). Rationalization makes that fraudulent actions are considered correct, if the company is committing fraud then the company will get a bigger profit. Rationalization is proxied by a change of auditors. TATA is related to rationalization where the accrual principle describes all company activities so that it becomes a management reference in decision-making (Skousen et al., 2009). According to Septriani & Desi Handayani, (2018) using the following formula:

$$\text{TATA} = \frac{\text{Working capital} - \text{Cash} - \text{Current tax payable} - \text{depreciation \& amortisation}}{\text{Total asset}}$$

4. Result and Discussion

4.1. Hypothesis Test result

The software used to estimate the regression is the Eviews program version 12. The data contains heteroscedasticity, therefore a common effect model is used with a weighted cross-section. Table 1 describes the results of hypothesis testing using Eviews software version 12.

Table 1. M-Score Dependent variable

Variable	Coefficient	Std. Error	T-statistic	Prob
C	-3.264545	0.420166	-7.816721	0.0000
OSHIP	-0,005744	0.001464	-3,923362	0.0002
REV	0,142213	0.161813	0,878872	0.3824
TATA	4,632235	0.008062	572,4672	0.0000
OI	-1.560016	1.500016	-1.039573	0.3020

Source: Result of views 12.

The results of testing the hypothesis in the table above can be explained as follows:

Hypothesis Testing (H1) The regression coefficient obtained from the influence of the Personal Financial (Oship) variable on fraudulent financial statements is 0.005744 with a statistical value of 3.923262 > 1.664 (Df=80) at a significant level = 0.05 (5%) with a value a significance of 0.0002 <0.05 which states that there is a negative and significant effect between Personal Financial (Oship) on fraudulent financial statements. The regression coefficient value of 0.005744 can be interpreted to mean that if Personal finances increase by 1, then fraudulent financial statements will decrease by 0.005744 and vice versa. If Personal Financial (Oship) decreases by 1, then fraudulent financial statements will increase by 0.005744.

Hypothesis Testing (H2), the regression coefficient obtained from the influence of the Nature of Industry (REV) variable on fraudulent financial statements is 0.142213 with a statistical value of 0.878872 < 1.664 (Df = 80) at a significant level = 0.05 (5%) with a significance value of 0.3824 > 0, 05 which states that there is no influence between Nature of Industry (REV) on fraudulent financial statements.

Hypothesis Testing (H3), the regression coefficient obtained from the influence of the Rationalization variable (TATA) on fraudulent financial statements is 4.623325 with a statistical value of 573.4771 > 1.664 (Df = 80) at a significant level = 0.05 (5%) with a significance value of 0.0000 <0.05 which states that there is a positive and significant influence between Rationalization (TATA) on fraudulent financial statements. The regression coefficient value of 4.465215 can be interpreted that if the Rationalization (TATA) increases by 1, then fraudulent financial statements will increase by 4.465215 and vice versa. If Rationalization (TATA) decreases by 1, then fraudulent financial statements will decrease by 4.465215.

Table 2. M-Score independent variable

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	-61.45667	29.05713	-2.115029	0.0375
OSHIP_OI	1.770013	4.090013	0,432329	0.6667

Source: Result of views 12.

Hypothesis Testing (H4), the regression coefficient obtained from institutional ownership in moderating the effect of the Personal Financial (Oship) variable on fraudulent financial statements is 1.770013 with a statistical value of 0.432329 <1.664 (Df=80) at a significant level = 0.05 (5%) with a significance value of 0.6667 > 0.05 which states that institutional shares are unable to moderate the influence of personal finance on fraudulent financial reporting.

Table 3. M-Score independent variable

Variable	Coefficient	Std. error	T-statistic	Prob
C	33.09766	58.19829	0.568705	0.5711
REV_OI	-2.170014	8.910013	-0.024312	0.9807

Source: Result of views 12.

Hypothesis Testing (H5), the regression coefficient obtained from institutional ownership in moderating the effect of opportunity on fraudulent financial statements is 2.170014 with a statistical value of 0.024312 <1.664 (Df=80) at a significant level = 0.05 (5%) with a significance value of 0.9807 > 0.05 which means states that institutional ownership is unable to moderate the effect of opportunity on fraudulent financial reporting.

Table 4. M-Score independent variable

Variable	Coefficient	Std. error	T-statistic	Prob
C	-1.112421	0.745262	-1.492658	0.1395
TATA_OI	-8.080015	2.020015	0.400579	0.6897

Source: Result of views 12.

Hypothesis Testing (H6), the regression coefficient obtained from institutional ownership in moderating the effect of Rationalization on fraudulent financial statements is 8.080015 with a statistical value of 0.400679 < 1.664 (Df = 80) at a significant level = 0.05 (5%) with a significance value of 0.5897 > 0.05 which means states that institutional ownership is not able to moderate the effect of rationalization on fraudulent financial reporting.

Test of the Coefficient of Determination

Testing the coefficient of determination is a test tool used to measure the extent to which the model's ability to explain variations in the dependent variable. Between zero and one is the value of the coefficient of determination. If the value of the adjusted R^2 is small, this is due to the limited ability of the independent variables to explain variations in the dependent variable. If the value of adjusted R^2 is close to one, then the independent variable will almost provide the information needed to predict the variation of the dependent variable. The following are the results of the coefficient of determination test in the following table

Table 5. Result of the coefficient of determination test

Statistics Weighted

MSE Root	5.471939	R-squared	0.998825
Var Mean dependent	41.62864	Adjusted R-squared	0.999915
Var SD. Dependent	638.9701	SE of regression	5.904506
Resid Sum squared	2545.069	F-statistic	90039.19
Stat Durbin-Watson	1.755745	Prob (F-statistic)	0.000000

Source: Result of views 12.

Based on the results of the coefficient of determination test in the table above, the value of Adjusted R-squared is 0.999915 or 99.99% of the total variation of independent variables such as Pressure, Opportunity, Rationalization and Good Corporate Governance (GCG) explaining the variation of the dependent variable in the form of report fraud finance. While the remaining 0.01% (100 – 99%) is explained by other variables or factors not explained in this study.

4.2. Discussion

There is a negative and significant influence between Personal Financial Need (OSHIP) on fraudulent financial reporting. Low ownership indicates that management tends not to commit fraudulent financial reporting. This is because there is no pressure that is heavy enough for management to commit fraud in the company's financial reporting, this is in line with the results of research from Alfina & Amrizal (2020); Tiffani et al., (2009); Widarti (2015); Khamainy et al., (2022), inversely proportional to the results of research Skousen et al., (2009) and Budiyono & Arum (2020), which states that Personal Financial Need has a positive effect on fraudulent financial reporting. The more shares owned by people in the company, the greater the possibility of fraud occurring.

There is no influence between the Nature of Industry (REV) on fraudulent financial statements. This is because inventories in the industrial sector have a long obsolescence, so managers experience difficulties in committing fraud by utilizing subjective assessments of obsolete inventories. Therefore, the ratio of changes in inventory does not affect the company's management to commit fraudulent financial statements. This is in line with research from Fadli & Junaidi (2022) and Putra (2019). Unlike the results of research from Rukmana (2018); Sihombing & Rahardjo (2014); Khamainy et al., (2022); Diansari & Wijaya (2019) found that the nature of industry (REV) has a significant effect on fraudulent financial statements.

There is a positive and significant influence between Rationalization (TATA) on fraudulent financial statements. This research is in line with research from Skousen et al. (2009); Amin (2018); Fadli & Junaidi (2022); Diansari & Wijaya (2019) Change of auditor or also known as an erasure of traces if the old auditors may have been exposed to fraud. The result of the study justifies measures (rationalization) that h can be used as an excuse for fraud. Studies show that changing auditors does not affect financial statement fraud.

Institutional ownership is unable to moderate the effect of Personal Financial Need (OSHIP) on fraudulent financial reporting. This is in line with the results of research from Ibrahim et al. (2022) and Apriliana & Agustina (2017) due to the low average managerial ownership so that it is clear between shareholders and managers, so managers are unable to carry out fraud. This is inversely proportional to the results of research from Hidayat et al. (2022) which states that institutional ownership is able to moderate the influence of personal financial need on fraudulent financial reporting. Institutional ownership is not able to moderate the effects of the nature of the industry (REV) on fraudulent financial reporting (Murtado et al., 2022).

Institutional ownership is unable to moderate the effect of the nature of the industry (REV) on fraudulent financial reporting. The mechanism of corporate governance is that institutional ownership has not been able to minimize agency problems which can cause managers to commit acts of fraudulent financial statements so that they are not the same as agency theory. No matter how many shares an institution owns, it cannot prevent managers from committing fraudulent financial reporting. According to Darmadi & Sodikin (2013), outside institutional shareholders still do not have a role in monitoring fraudulent actions committed by managers, so that this gap is exploited by managers in committing fraudulent financial reporting. In contrast to the results of research from Wulandari & Maulana (2022), institutional ownership is able to moderate the influence of the nature of industry on fraudulent financial reporting.

Institutional ownership is not able to moderate the effect of rationalization on fraudulent financial statements. The presence of institutional investors has a role limited to monitoring financial performance, but does not have a decision-making role in determining a public accounting firm. So that this will not have an impact on fraudulent financial reporting practices. This research is supported by Wulandari & Maulana (2022), this is different from the results of research from Duan et al. (2023) that institutional ownership is able to moderate the effect of rationalization on fraudulent financial reporting.

5. Conclusion

There is a negative and significant personal financial need (OSHIP) effect on fraudulent financial reporting, no effect between nature of the industry (REV), on fraudulent financial statements and there is a positive effect between Rationalization (TATA) on fraudulent financial statements. Institutional ownership is not able to moderate the influence of Personal Financial Need (OSHIP), nature of the industry (REV), and Rationalization on financial statement fraud.

Suggestion

It is hoped that for further research, the corporate governance proxy will be added with an audit committee, managerial ownership, independent commissioners, audit quality and stakeholders. Meanwhile, proxy pressure other than financial stability is for further research added financial targets, financial stability, and external pressure. For proxies opportunity added proxy ineffective monitoring.

References

Abadi, S., Endarto, B., Taufiqurrahman, Aji, R. B., Kurniawan, W., Daim, N. A., Kalbuana, N. (2021). Indonesian Desirious Finality of the Community in Regard. – Journal of Legal, Ethical and Regulatory Issues, 24(Special Is), pp. 1-10.

Adrian Kayoi, S. (2019). Faktor-Faktor Yang Mempengaruhi Financial Statement Fraud Ditinjau Dari Fraud Triangle Pada Perusahaan Manufaktur di Bursa Efek Indonesia Periode 2015-2017. – Diponegoro Journal of Accounting, 8(4), pp. 1-13.

Alfina, D. F., Amrizal, A. (2020). Pengaruh Faktor Tekanan, Peluang, Rasionalisasi, Kompetensi, dan Arogansi Terhadap Kecurangan Laporan Keuangan. – Akuntabilitas, 13(1), pp. 63-76. https://doi.org/10.15408/akt.v13i1.14497.

Aliyyah, N., Prasetyo, I., Rusdiyanto, R., Endarti, E. W., Mardiana, F., Winarko, R., Tjaraka, H. (2021). What Affects Employee Performance through Work Motivation?. – Journal of Management Information and Decision Sciences, 24, pp. 1-14. Retrieved from https://www.scopus.com/inward/record.uri?eid=2-s2.0-85110461420&partnerID=40&md5=4b5e50800f8866ccdd52682c4b5a73f4.

Amin, S. N. (2018). Fraud detection of financial statement by using fraud diamond perspective. – International Journal of Development and Sustainability, 7(3), pp. 878-891.

Apriliana, S., Agustina, L. (2017). The Analysis of Fraudulent Financial Reporting Determinant through Fraud Pentagon Approach. – Jurnal Dinamika Akuntansi, 9(2), pp. 154-165. https://doi.org/10.15294/jda.v7i1.4036.

Association of Certified Fraud Examiners. (2020). Report to the Nations on Occupational Fraud and Abuse: 2020 Global Fraud Study. Association of Certified Fraud Examiners, Inc., pp. 1-88.

Budiharjo, R, Supriatiningsih, Irawan, A. (2020). The Influence of Institutional Ownership, Managerial Ownership, Leverage and Firm Sizes on Integrity of Financial Statements. – Quest Journals Journal of Software Engineering and Simulation, 6(3884), pp. 30-37.

Budiyono, I., Arum, M. S. D. (2020). Determinants in detecting fraud triangle of financial statements on companies registered in Jakarta Islamic Index (JII) period 2012-2018. – Journal of Islamic Accounting and Finance Research, 2(1), p. 117. https://doi.org/10.21580/jiafr.2020.2.1.4818.

Cressey, D. R. (1953). Other people's money; a study of the social psychology of embezzlement.

Darmadi, S., Sodikin, A. (2013). Information disclosure by family-controlled firms: The role of board independence and institutional ownership. – Asian Review of Accounting, 21(3), pp. 223-240. https://doi.org/10.1108/ARA-01-2013-0009.

Diansari, R. E., Wijaya, A. T. (2019). Diamond fraud analysis in detecting financial statement fraud. – Journal of Business and Information Systems (e-ISSN: 2685-2543), 1(2), pp. 63-76. https://doi.org/10.36067/jbis.v1i2.23.

Dorminey, J., Fleming, A., Kranacher, M.-J., & Jr, R. (2012). The Evolution of Fraud Theory. Issues in Accounting Education, 27, 555. https://doi.org/10.2308/iace-50131

Duan, L., Li, L., Park, K. H., Wu, D. (2023). Muddy the waters to conceal information? Evidence from firms' inconsistent answers during Q&As. – Finance Research Letters, 51(August 2022), pp. 1-12. https://doi.org/10.1016/j.frl.2022.103415.

Eisenhardt, K. M., & Eisenhardt, K. M. (2018). Linked references are available on JSTOR for this article: Agency Theory: An Assessment and Review. – Academy of Management, 14(1), pp. 57-74.

Endarto, B., Taufiqurrahman, Suhartono, S., Setyadji, S., Abadi, S., Aji, R. B., Kalbuana, N. (2021). The Obligations of Legal Consultants in The Independent Legal Diligence of The Capital Market Supporting Proportion of Legal Prepparement. – Journal of Legal, Ethical and Regulatory Issues, 24(Special Is), pp. 1-8.

Endarto, Budi, Taufiqurrahman, Kurniawan, W., Indriastuty, D. E., Prasetyo, I., Aliyyah, N., Kalbuana, N. (2021). Global Perspective on Capital Market Law Development in Indonesia. – Journal of Management Information and Decision Sciences, 24(1), pp. 1-8. Retrieved from https://www.abacademies.org/abstract/global-perspective-on-capital-market-law-development-in-indonesia-12027.html.

F. Agung Himawan;ALbertus Karjono. (2019). Analisis Pengaruh Financial Stability, Ineffective Monitoring Dan Rationalization Terhadap Integritas Laporan Keuangan Dalam Perspektif Fraud Trianglepada Perusahaan Manufaktur Yang Terdapat di Bursa Efek Indonesia Periode 2012-2016. – ESENSI: Jurnal Manajemen Bisnis.

Fadli, N. Y., Junaidi, J. (2022). Potential Fraud Detection Analysis of Financial Statements: Diamond Fraud Approach. – Telaah Bisnis, 23(1), p. 72. https://doi.org/10.35917/tb.v23i1.274.

Hidayat, D., Supriatiningsih, Budiharjo, R., Nabilah, A. (2022). Analysis of the Effect of Audit Tenure, Corporate Governance Structure and Size of KAP on The Integrity of Financial Statements. – IRE Journals, 5(11), pp. 39-46.

Ibrahim, L., Darwis, H., Supriatiningsih, S. (2022). Mekanisme Good Corporate Governance Dalam Menekan Tindakan Kecurangan Pada Perusahaan Go Green di Indonesia. – Jurnal Akuntansi, 11(2), pp. 248-263. https://doi.org/10.37932/ja.v11i2.687.

Jannah, M., Fahlevi, M., Paulina, J., Nugroho, B. S., Purwanto, A., Subarkah, M. A., Cahyono, Y. (2020). Effect of ISO 9001, ISO 45001 and ISO 14000 toward financial performance of Indonesian manufacturing. – Systematic Reviews in Pharmacy, 11(10). https://doi.org/10.31838/srp.2020.10.134.

Kalbuana, N., Kusiyah, K., Supriatiningsih, S., Budiharjo, R., Budyastuti, T., Rusdiyanto, R. (2022). Effect of profitability, audit committee, company size, activity, and board of directors on sustainability. – Cogent Business & Management, 9(1), 2129354. https://doi.org/10.1080/23311975.2022.2129354.

Kalbuana, N., Taqi, M., Uzliawati, L., Ramdhani, D. (2022). The Effect of Profitability, Board Size, Woman on Boards, and Political Connection on Financial Distress Conditions. – Cogent Business and Management, 9(1). https://doi.org/10.1080/23311975.2022.2142997.

Kalbuana, N., Taqi, M., Uzliawati, L., Ramdhani, D. (2023). CEO narcissism, corporate governance, financial distress, and company size on corporate tax avoidance 10(1), pp. 0-22. https://doi.org/10.1080/23311975.2023.2167550.

Khamainy, A. H., Ali, M., Setiawan, M. A. (2022). Detecting financial statement fraud through new fraud diamond model: the case of Indonesia. – Journal of Financial Crime, 29(3), pp. 925-941. https://doi.org/10.1108/JFC-06-2021-0118.

Liu, C., Wu, S. S. (2020). National Culture, Legal Environment, and Fraud. eISBN: 978-1-78973-417-1.

Luwihono, A., Suherman, B., Sembiring, D., Rasyid, S., Kalbuana, N., Saputro, R., Rusdiyanto. (2021). Macroeconomic effect on stock price: Evidence from Indonesia. – Accounting, 7(5), pp. 1189-1202. https://doi.org/10.5267/j.ac.2021.2.019.

Mekling, J. (1976). Journal of Financial Economics 3. – Human Relations, 72(10), pp. 1671-1696. https://doi.org/10.1177/0018726718812602.

Murtado, A., Andru, A., Darmayanti, A., Adriadi, K. (2022). Detecting fraud of financial statement through pentagon's fraud theory. – Jurnal Inovasi Ekonomi, 7(01), pp. 39-46. https://doi.org/10.22219/jiko.v7i01.18721.

Nawang Kalbuana, Muhamad Taqi, Lia Uzliawati, Dadan Ramdhani, M. (2023). Factors Affecting the Disclosure of Sustainability Reporting. – International Journal of Commerce and Finance, 5(2), pp. 219-229.

Novarina, D., Triyanto, D. N. (2022). Pengaruh Fraud Hexagon Terhadap Kecurangan Laporan Keuangan Pada Perusahaan LQ 45 Yang Terdaftar di Bursa Efek Indonesia Periode 2016-2020. – Jurnal Akuntansi Dan Keuangan, 10(2), p. 183. https://doi.org/10.29103/jak.v10i2.7352.

Permata Sari, S., Kurniawan Nugroho, N. (2020). Financial Statements Fraud dengan Pendekatan Vousinas Fraud Hexagon Model: Tinjauan pada Perusahaan Terbuka di Indonesia 26.

Prasetyo, I., Aliyyah, N., Rusdiyanto, R., Nartasari, D. R., Nugroho, S., Rahmawati, Y., Rochman, A. S. (2021). What Affects Audit Delay in Indonesia?. – Academy of Entrepreneurship Journal, 27, pp. 1-15.

Puspitha, M. Y., Yasa, G. W. (2018). Fraud Pentagon Analysis in Detecting Fraudulent Financial Reporting. – International Journal of Sciences: Basic and Applied Research, 42(5), pp. 93-109.

Putra, W. M. (2019). Analysis of Financial Fraud Using the Fraud Diamond Model with Corporate Governance As The Moderating Variable. 102(Icaf), pp. 163-169. https://doi.org/10.2991/icaf-19.2019.27.

Rengganis, R. M. Y. D., Sari, M. M. R., Budiasih, I. G. A., Wirajaya, I. G. A., Suprasto, H. B. (2019). The fraud diamond: element in detecting financial statement of fraud. – International Research Journal of Management, IT and Social Sciences, 6(3), pp. 1-10. https://doi.org/10.21744/irjmis.v6n3.621.

Rohmatin, B. L., Apriyanto, G., Zuhroh, D. (2021). The Role of Good Corporate Governance to Fraud Prevention: An analysis based on the Fraud Pentagon. – Jurnal Keuangan Dan Perbankan, 25(2), pp. 280-294. https://doi.org/10.26905/jkdp.v25i2.5554

Rukmana, H. S. (2018). Pentagon Fraud Effect on Financial Statement Fraud and Firm Value. – South East Asia Journal of Contemporary Business, Economics and Law, 16(5), pp. 118-122.

Sabaruddin, S. (2022). Kemampuan Fraud Diamond Mendeteksi Kecurangan Pelaporan Keuangan Dimoderasi Ukuran Perusahaan. – Jurnal Akuntansi Dan Governance, 2(2), p. 130. https://doi.org/10.24853/jago.2.2.130-140.

Samukri, S., Supriatiningsih, S., Saleh, R., Syafitri, A. E. (2022). Auditor Competence and The Use of Information Technology in Produce Quality Audits in The Era of The Industrial Revolution 4. 0 (Study on Auditors at KAP South Jakarta, Indonesia). – Iconic Research and Engineering Journal, 5(11), pp. 13-21.

Sembiring, S., Trisnawati, I. T. A. (2019). Faktor – Faktor Yang Mempengaruhi Nilai Perusahaan. 21(1), pp. 173-184.

Septriani, Y., Desi Handayani, dan. (2018). Mendeteksi Kecurangan Laporan Keuangan dengan Analisis Fraud Pentagon. 11(1), pp. 11-23.

Sihombing, K. S., Rahardjo, S. N. (2014). Analisis Fraud Diamond dalam Mendeteksi Financial Statement Fraud (Studi Empiris pada Perusahaan manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2010-2012). – Diponegoro Journal of Accounting, 3(2), pp. 1-12.

Skousen, C. J., Smith, K. R., Wright, C. J. (2009). Detecting and predicting financial statement fraud: The effectiveness of the fraud triangle and SAS No. 99. – Advances in Financial Economics, 13, pp. 53-81. https://doi.org/10.1108/S1569-3732(2009)0000013005.

Skousen, C. J., Smith, K. R., Wright, C. J. (2015). Article information: Earnings management behaviour of Shariah-compliant firms and non-Shariah- compliant. – Journal of Islamic Accounting and Business Research, Vol. 6.

Skousen, C., Smith, K., Wright, C. (2008). Detecting and Predicting Financial Statement Fraud: The Effectiveness of the Fraud Triangle and SAS No. 99. – Advances in Financial Economics, 13. https://doi.org/10.2139/ssrn.1295494.

Summers, S. L., Sweeney, J. T. (1998). Fraudulently misstated financial statements and insider trading: An empirical analysis. – Accounting Review, 73(1), pp. 131-146.

Surjaatmaja, L. (2018). Detecting Fraudulent Financial Statement Using Fraud Triangle: Capability as Moderating Variable. – KnE Social Sciences, 3(10), p. 945. https://doi.org/10.18502/kss.v3i10.3184.

Taqi, M., Ismail, T., Meutia, M., Sabaruddinsah, S., Arifin, B. (2021). Village Fund Financial Fraud Prevention Model Using Analytical Hierarchy Process Method. – Jurnal Organisasi Dan Manajemen, 17(2), pp. 203-216. https://doi.org/10.33830/jom.v17i2.1366.2021.

Taqi, M., Rahmawati, R., Bandi, B., Payamta, P., Rusydiana, A. S. (2021). Audit Quality Research: A Bibliometric Analysis. – Library Philosophy and Practice.

Tiffani, Laila, Marfuah. (2009). Deteksi Financial Statement Fraud dengan Analisis Fraud Triangel pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia. – Jurnal Akuntansi Dan Auditing Indonesia, 19(2), pp. 112-125.

Triyani, O., Kamalia, Azwir. (2019). Pengaruh Good Corporate Governanceterhadap Kecurangan Laporan Keuangan dengan Manajemen Laba sebagaiVariabel Moderating. – Jurnal Ekonomi, 27(1), pp. 27-36.

Uzliawati, L., Kalbuana, N., Budyastuti, T., Budiharjo, R., Kusiyah, Ahalik. (2023). The power of sustainability, corporate governance, and millennial leadership: Exploring the impact on company reputation. – Uncertain Supply Chain Management, 11(3), pp. 1275-1288. https://doi.org/10.5267/j.uscm.2023.3.020.

Uzliawati, L., Taqi, M., Muchlish, M., Kalbuana, N. (2023). The Transformation of Corporate Reputation Driven by Corporate Governance, Environmental Social, and Governance (ESG), Business Activity, and Profitability in Indonesia. – Review of Economic and Finance, 21, pp. 1295-1305.

Widarti. (2015). Pengaruh fraud triangle terhadap deteksi kecurangan laporan keuangan pada perusahaan manufaktur yang terdaftar di bursa efekindonesia (bei). – Jurnal Manajemen Dan Bisnis Sriwijaya, 99.

Wulandari, R., Maulana, A. (2022). Institutional Ownership as Moderation Variable of Fraud Triangle on Fraudulent Financial Statement. – Jurnal ASET (Akuntansi Riset), 14(2), pp. 207-222. https://doi.org/10.17509/jaset.v14i2.44183.

Yahya, A., Permatasari, M. D., Hidayat. (2021). Tax Avoidance: Good Corporate Governance dan Kualitas Audit. – Jurnal Pelita, 15(02), pp. 95-105.

Yulianti, Y., Pratami, S. R., Widowati, Y. S., Prapti, L. (2019). Influence of fraud pentagon toward fraudulent financial reporting in Indonesia an empirical study on financial sector listed in Indonesian stock exchange. – International Journal of Scientific and Technology Research, 8(8), pp. 237-242.