



Analysis Of Financial Report Fraud Through The Pentagon Fraud Approach

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Abstract The purpose of the meta-analysis in this study is to explain and prove the relationship between Pentagon Fraud and Financial Report Fraud. The articles used in this meta-analysis were collected through electronic journals. There are five journals that can be studied qualitatively. The results show that previous research studies concluded that pressure and opportunities cause fraud in financial reports. Researchers found a weakness in previous research: the pressure variable focused too much on financial targets. So few people pay attention to external pressure.

Keywords: Financial Report Fraud, Pentagon Fraud, Meta Analysis

INTRODUCTION

Financial reports are a form of company accountability to stakeholders, which include internal and external parties, to inform the company's financial performance over a certain period of time. Financial reports provide data containing company financial information for one accounting period. According to Triastuti et al. (2020), financial reports reflect the company's financial condition. Financial reports are guided by regulations in accordance with SAK established by IAI. The purpose of making this report is to provide information regarding accounting reports that serves as a guide for users of financial reports in making various economic decisions as stated in the 2009 SAK guidelines. Analysis of company financial reports helps parties who have an interest in deciding on a decision. According to Lastanti (2020), financial reports are also the responsibility of company management to stakeholders. Stakeholders fundamentally make decisions on the basis of financial reports. Relevance and precision are two fundamental information characteristics that underline the reporting conceptual framework of a financial report. Properly prepared reports display comprehensive, neutral, and error-free information.

PT. Jiwasraya Insurance caught the public's attention with the financial reporting scandal it carried out in early 2020. This was done by recording false profits since 2006, which were later revealed in the results of the BPK investigation. This case also involves the role of PT accountants. Jiwasraya Insurance, which carries out engineering on financial reports on an ongoing basis. Irregularities were also found in PT's financial statements. Garuda Indonesia for the 2018 period. Two Garuda Indonesia commissioners refused to provide signatures and considered that the financial report did not comply with the Statement of Financial Accounting Standards (PSAK). In the financial report, a net profit of USD 809,846 was recorded, which

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shows a sharp increase compared to 2017, which experienced a loss of USD 216.58 million. Apart from that, there is also the case of a property company, namely PT Hanson International, which was proven to have manipulated its financial reports in 2016. This company recorded sales of ready-to-build plots (kasiba) worth IDR 732 billion, so its income rose drastically compared to the previous year.

Fraud, especially regarding financial reports, occurs due to motivation and encouragement from various parties, both within the company and from outside the company. Encouragement and motivation are needed so that the financial reports presented look good and attract the attention of investors or potential investors, and managers will try to use various methods to present good financial reports. The fraud techniques carried out vary, ranging from circumventing generally accepted accounting principles (Financial Accounting Standards), carrying out aggressive earnings management, to carrying out illegal actions that are then hidden, and leading to company bankruptcy. It is not uncommon for cases of fraudulent financial reporting to occur, also involving company auditors.

According to Pratami et al. (2019), manipulation of financial reports is defined as deliberate manipulation by the management of a company by not presenting financial reports correctly, which of course harms investors and other related parties. Fraud committed because of the company's financial condition is carried out by making misstatements of reports or other errors in the figures or issuance of reports to deceive users. According to Ikbal et al. (2020), reporting in company financial reporting certainly involves intentionality, including disclosing income and asset figures. Management tends to be the main actor because they have complete control over the financial statements. So it can be concluded that the incident in the financial statements was an intentional act by company management to deceive users of the financial statements by misrepresenting the financial statements from the component figures of the financial statements, which had the potential to harm investors.

Fraud pentagon theory is a development of Cressey's fraud triangle theory. In 2009, Jonathan Marks, a partner-in-charge at Crowe Horwath LLP, added two elements that are drivers of fraud. This theory became known as Crowe Horwath's Fraud Pentagon Theory. In this theory, Marks considers competence and arrogance as factors that play a role in encouraging someone to commit fraud. According to Marks, competence is the development of Cressey's element of opportunity, which includes the individual's ability to control internal and social controls in situations that benefit themselves. Meanwhile, arrogance is the behavior of someone who feels superior and believes that company regulations do not apply to him.

Someone commits an act of fraud as a response to financial encouragement or pressure (financial motivation). Albrecht et al. (2012) said that fraud experts divide pressure into four types, namely: (1) financial pressure, (2) bad habits, (3) pressure from work relationships, and (4) other pressure. According to SAS No. 99, in the pressure element, several types of general conditions that can cause fraud are financial stability, external pressure, and financial targets. Business designs often provide many opportunities for fraudsters to result in theft or misuse of assets. SAS No. 99 states that there are three categories of conditions that create opportunities for financial fraud: the nature of the industry, ineffective monitoring, and organizational structure.

According to Bianchi (2014), employees who commit acts of fraud do not view themselves as criminals. They actually find ways to rationalize their behavior. Some of the perpetrators of this fraud may feel underappreciated or dissatisfied with the salary provided by the company. Therefore, they tend to tell themselves that the company owes them as a rationalization for their actions. In SAS No. 99, it is stated that rationalization in a company can be measured by the auditor change cycle, the audit opinion given by the external auditor, and the state of total accruals divided by total assets.

According to Marks (2010), the competence element develops Cressey's opportunity element so that it also includes the individual's ability to override existing controls in the company, create strategies to cover up fraudulent acts committed, and control social situations for personal gain.

Marks (2010) said that arrogance is the superiority or greed possessed by perpetrators of fraud. They believe that existing company regulations or procedures do not apply to them. The perpetrators of this fraud completely ignore the consequences of their actions. Research by Yusof et al. (2015) shows that the element of arrogance can be measured by looking at the presence of a CEO who is also a politician, the frequency of appearances of the CEO's image, an autocratic leadership style, and the presence of CEO duality (a CEO who also serves as part of the board of directors in the same company).

METHODES

Meta-analysis introduces a series of quantitative analysis techniques that enable the synthesis of various research results. Analysis in meta-analysis is based on the availability of artifact information from each research result. In other words, before integration is carried out, integration is carried out first, and corrections are made for artifacts or research imperfections (Sugiyanto, 2002).

RESULTS

According to research by Roza Mulyadi, Fita Rani Aulia, Mega Arum (2021) The results of the partial test analysis show that pressure and opportunity has significant effect in detecting fraudulent financial reporting. Whereas rationalization, capability and the arrogance variable has insignificant effect in detecting fraudulent financial reporting. The test results simultaneously are pressure, opportunity, rationalization, capability and arrogance has significant effect in detecting fraudulent financial reporting

According to research by Siska Apriliana dan Linda Agustina (2017) The test result showed that financial stability, the quality of external auditor, and the number of CEO's photos in the annual reports of the companies had a positive effect on the prediction of fraudulent financial reporting, while financial targets, liquidity, institutional ownership, monitoring effectiveness, replacement of external auditors, and changes of corporate directors had no significant effect on the prediction of fraudulent financial reporting.

According to research by Muhammad Fauzan Zakiy, Hadi Pramono, Sri Wahyuni, Nur Isna Inayati (2022) The results of this study indicate that external pressure, financial targets, and institutional ownership have a positive effect, and effective monitoring negatively influences fraudulent financial reporting.

According to research by Wiwit Rica Anggraini dan Ani Wilujeng Suryani (2021) These results indicate that the existence of pressure and rationalization can lead to financial fraud, but opportunity negatively affect fraudulent financial reporting. The results of this study contribute to the development of accounting science and to provide information on the prevention and detection of fraud in companies.

According to research by Dedik Nur Triyanto (2021) The results indicate that variable namely, pressure, opportunity, rationalization, competence, and arrogance, simultaneously do not affect fraudulence financial statement. Partially, only competence variable significantly affect fraudulence financial statement.

DISCUSSION

A meta-analysis study found that, from the results of previous research, it was concluded that pressure and opportunity caused fraud in financial reports. Researchers found a weakness in previous research: the pressure variable focused too much on financial targets. So few people pay attention to external pressure. However, it is also important to pay attention to the company's total expenses, because sometimes costs increase due to fraud. Such as

increasing the cost of purchasing raw materials to seek personal profit or transportation services that are not actually charged by the seller.

CONCLUSION

Based on the results of the meta analysis, the weakness in the research that has been carried out is that previous research for the Pressure variable focused too much on financial targets. So few people pay attention to external pressure. However, it is also important to pay attention to the company's total expenses, because sometimes costs increase due to fraud.

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