

## **ANALYSIS OF FACTORS INFLUENCING *FINANCIAL STATEMENT FRAUD* WITH COMPANY SIZE AS AN INTERVENING VARIABLE IN *THE STOCK EXCHANGE OF THAILAND***

**Lia Nurfarida<sup>1</sup>, Haifa<sup>2</sup>, Mainatul Ilmi<sup>3\*</sup>**  
**Institut Technology and Sains Mandala**

**Email: [lianurfarida15@gmail.com](mailto:lianurfarida15@gmail.com), [haifa@itsm.ac.id](mailto:haifa@itsm.ac.id), [mainatulilmi@itsm.ac.id](mailto:mainatulilmi@itsm.ac.id)**

\*Corresponding Author

### **Abstract**

This study aimed to analyze the factors that influence financial statement fraud with company size as an intervening variable. The data that used were financial statements (annual report) during 2015-2019. The sample method was purposive sampling. The whole samples consisted of 13 property and construction company that listed in Stock Exchange of Thailand. Data analysis technique that used was path analysis. The result showed that financial target and quality of external auditor have significant effect to company size, while ineffective monitoring, change of company director and the number of photos CEO have no significant effect. Quality of external auditor, change of company director and company size have significant effect to financial statement fraud, while financial target, ineffective monitoring and the number of photos CEO have no significant effect. Company size can be intervening variable between financial target, quality of external auditor and the number of photos CEO in financial statements to financial statement fraud.

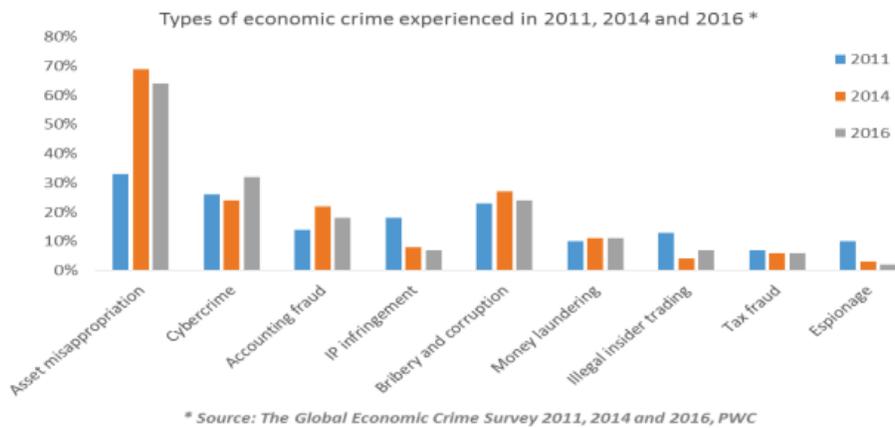
**Keywords:** financial statement fraud, financial target, external auditor, ineffective monitoring, company size

### **INTRODUCTION**

Financial statements are a structural presentation issued by companies based on their performance results, which aim to provide information and show the financial condition of a company which will later be used to determine economic decisions by users of financial statements. Financial reports that have high integrity and can be said to be accurate if they are presented correctly, honestly and relevantly (Afanin and Rahmawati, 2019). Fraudulent financial reporting is an attempt made intentionally by a company to deceive and mislead users of financial statements, especially investors and creditors, by presenting and manipulating the

material value of financial statements. The frauds committed by company managers to manipulate financial reports are called fraud, while the practice of fraudulent financial reporting itself is better known as fraudulent financial reporting (Tessa and Harto, 2016).

The survey and research results of the Association of Certified Fraud Examiners (ACFE) Global show that every year an average of 5% of an organization's income contains fraud. Giant companies that are known to have good financial control systems are inseparable from fraud activity. This proves that fraud cases do not only occur in small companies but can also occur in large companies. Even developed countries are no exception. Even public accounting firms that are dragged into fraud cases are not only small and medium scale, KAPs which are included in the big four are also not immune from fraud case audit failures. The following is a graph showing the development of fraud cases globally with various types of fraud. It is known that the percentage of financial statement fraud cases has a fairly high percentage compared to other fraud cases. In 2016, 2014 and 2011 it was noted that the percentage of financial statement fraud cases was 18%, 22% and 6%.



**Figure 1.1 Percentage of Fraud Cases**

Source: Researchget.net

Undetected financial statement fraud can develop into a major scandal that is detrimental to many parties (Skousen et al., 2009). According to Karyono (2013) this research is important to research because to prevent, detect and investigate Fraud Financial Statements one must increase understanding and learn in advance about the theory and driving factors and causes of fraud. This is supported by Kennedy's research (2014) which states that if no research is

conducted on fraud, then it will not be known what factors and causes lead to fraud because the impact it causes causes huge losses for investors who have so far relied on financial reports as a basis for decision making. invest. In addition, financial statement fraud (fraud) also has a negative impact on the company, which can reduce the company's reputation, reduce investor confidence in the company and can reduce the company's stock price.

### **Financial Statement Fraud**

According to the American Institute of Certified Public Accountants / AICPA (2002), financial statement fraud is a negligence or intentional misstatement that causes the financial statements to mislead users. Fraud Financial Statement is an attempt to present financial statements that are not in accordance with generally accepted accounting principles. This negligence or intentionality is material in nature and can affect decisions to be taken by interested parties so that it will mislead users of financial statements.

### **Fraud Pentagon Theory**

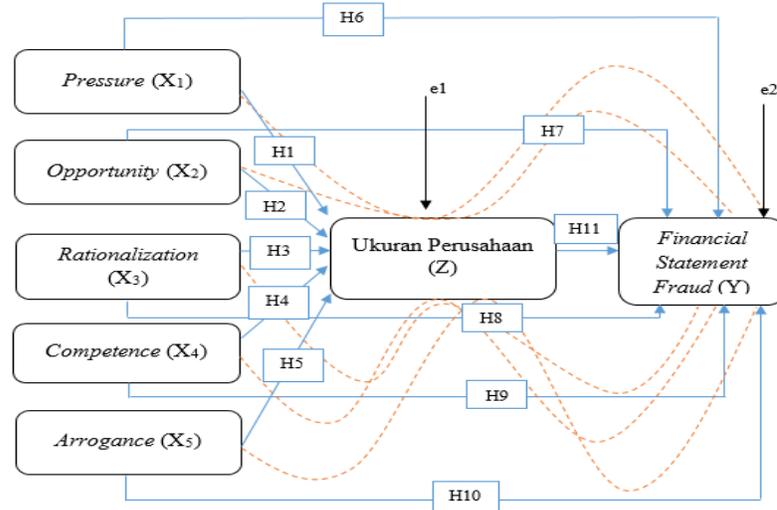
The pentagon theory is a development of the fraud triangle and fraud diamond theories. The fraud triangle has three elements, namely pressure, opportunity and rationalization. This theory was put forward by Donald. R Cressey in 1950 who was conducting research for his doctoral thesis (Rahayu, et al., 2020). In 2004 Wolfe and Hermanson, developed the fraud triangle model by adding one factor driving fraud, namely capability, which became known as the fraud diamond. Wolfe and Hermanson argues, even though there is an open opportunity to commit fraud, pressure and rationalization can encourage someone to do that, but someone must have the capability or ability to take advantage of this opportunity and take advantage. Crowe Howard put forward the development of the fraud diamond theory by changing the risk factor of capability with competence and adding one more factor, namely arrogance (Antawirya et al., 2019).

### **Company Size**

Company Size is a scale that can classify companies into large and small companies according to various ways, including the company's total assets, stock market, average level of sales, and total sales. (Widyantari, 2017). The greater the total assets and sales, the greater the size of a company. The greater the assets, the greater the invested capital, while the more sales, the more money circulation in the company (Hery, 2017). This can encourage management

initiatives to make financial reports as good as possible so that investors are interested in investing their capital. So, there is the possibility of management to manipulate financial reports.

**Research Framework**



**Figure 2.1 Research Framework**

Description:

- : Direct influence
- : Indirect influence

**Hypothesis**

**1. Pressure has a direct effect on company size.**

Pressure is proxied by financial targets, which are business profit targets to be achieved by a company in the future. Financial targets are measured by Return on Assets (rate of return on assets) while company size is proxied by total assets. Logically, the increasing Return on Assets will affect the increasing total assets of the company. So, the hypothesis in this study is:

H1 : It is suspected that pressure has a direct effect on firm size

**2. Opportunity has a direct effect on company size.**

According to the American Institute of Certified Public Accountants (2002) in Lindasari (2019), ineffective monitoring is a condition where the internal control system does not work effectively, which creates opportunities for fraud. One of the objectives of the company's

internal control is to increase effectiveness and efficiency in the use of assets in order to protect the company from the risk of loss. As a result of ineffective internal control, it can lead to a decrease in company profits or even losses, which in turn will affect the company's total assets. So, the hypothesis in this study is:

H2 : It is suspected that Opportunity has a direct effect on firm size

### **3. Rationalization has a direct effect on company size.**

The quality of external auditors is determined by the choice of audit services at a public accounting firm appointed by the company, namely a Public Accounting Firm (KAP) that is foreign affiliated or included in BIG4. This is because audit services that are included in BIG4 are considered to have the ability to detect fraud. So that it can attract investors to invest their capital in the company which will later increase the company's capital, thus the company can develop into a large company. Then the hypothesis in this study is:

H3 : It is suspected that Rationalization has a direct effect on firm size.

### **4. Competence has a direct effect on company size**

Competence is proxied by the change of directors which is the transfer of authority from the old director to the new director to improve the performance of the previous management (Annisya, 2016). Frequent changes of directors can cause stress periods when the company's condition is unstable. In addition, the frequent changes in the composition of the board of directors reflect political interests in the board of directors and as an effort to reduce the effectiveness of management performance because they have to adapt to the work culture of the new directors. This can affect the financial targets to be achieved by the company resulting in a decrease in the rate of return on company capital. Then the hypothesis in this study is:

H4 : It is suspected that competence has a direct effect on company size

### **5. Arrogance has a direct effect on company size.**

The increasing number of CEO photos that are displayed in company annual reports shows the level of arrogance and superiority that they have where they want to show the wider community about the status and position held in a company (Septriani and Handayani, 2018). Sometimes a CEO wants to show a photo of himself in company activities such as Corporate

Social Responsibility activities, thus convincing the public or investors that the company has a highly dedicated leader so that the public or investors believe in investing in the company which will increase their capital. company. Then the hypothesis in this study is:

H5 : It is suspected that arrogance has a direct effect on company size.

#### **6. Pressure has a direct effect on Financial Statement Fraud.**

In research conducted by Herdiana and Shinta Permata Sari (2018), it is stated that financial targets have a significant effect on fraudulent financial statements. This is also in line with the results of Lindasari's research (2019). The financial target in this study is proxied by ROA. The higher ROA targeted by the company, the more vulnerable management will be to manipulating earnings which is a form of fraud so that it has a positive relationship with fraudulent financial statements. So, the research hypothesis is:

H6 : It is suspected that pressure has a direct effect on fraudulent financial statements

#### **7. Opportunity has a direct effect on Financial Statement Fraud.**

Research conducted by Afanin and Evi Rahmawati (2019) states that the ineffectiveness of supervision has a significant positive effect on fraudulent financial statements. The results of this study are also supported by research by Legowo (2019), A R. and Pratomo D (2019) and Aprilia (2017) which state that ineffective oversight has an effect on financial statement fraud. The control system within the company carried out by an independent board of commissioners will greatly assist the auditor in discovering fraudulent practices. The more the number of independent commissioners will also affect the effectiveness of company supervision. So, the research hypothesis is:

H7 : It is suspected that Opportunity has a direct effect on the Fraud Financial Statement

#### **8. Rationalization has a direct effect on Fraud Financial Statements.**

Research conducted by Legowo (2019) states that the rationalization variable that proxies the quality of external auditors has a significant effect on fraudulent financial reporting. The results of this study are in line with Nasution, et al (2019) which state that opportunity has a significant effect on financial statement fraud. The relationship between rationalization and fraudulent financial reporting that is proxied by the quality of external auditors means that the

higher the quality of the external auditors, the lower the chance of fraud occurring (Siddiq et al, 2017). So, the research hypothesis is:

H8 : It is suspected that Rationalization has a direct effect on Fraud Financial Statements

### **9. Competence has a direct effect on Financial Statement Fraud**

Research conducted by Devy et al. (2017), stated that the ability to proxy the board of directors change has a positive effect on fraudulent financial reporting. Likewise the research conducted by Manurung and Hardika (2015) which showed results that turnover had a significant effect on fraudulent financial reporting. So, the research hypothesis is:

H9 : It is suspected that Competence has a direct effect on Financial Statement Fraud

### **10. Arrogance has a direct effect on Financial Statement Fraud**

Research conducted by Legowo (2019) states that the number of CEO photos appearing in financial reports has a significant effect on financial statement fraud. Likewise, the results of research conducted by Tessa and Harto (2016) prove that the frequency of CEO photos appearing has a positive and significant effect on fraudulent financial reporting. The large number of photos of CEOs displayed in the company's annual reports indicate that CEOs have arrogance, namely the desire to be known by the public for their status or position (Aprillia, 2017). So, the hypothesis in this study is:

H10 : It is suspected that arrogance has a direct effect on financial statement fraud

### **11. Company size has a direct effect on Fraud Financial Statements**

Companies that have a large size tend to want to show that the company is in good condition, this encourages company managers to manipulate their financial statements so as to attract investors to invest their capital. According to SAS 99 No. 37 (AICPA, 2002) financial risk is also caused by size. So the hypothesis in this study is:

H11 : It is suspected that company size has a direct effect on fraudulent financial statements

## **RESEARCH METHODS**

This research was conducted in property and construction sector companies with the property and development subsector listed on the Stock Exchange of Thailand. The population

is 34 companies in the 2015-2019 period. The sampling technique in this study used a purposive sampling method. The sample in this study amounted to 13 companies. This type of research is explanatory research where this research aims to explain the causal relationship between the variables that influence the hypothesis. The following is a description of the identification of variables in this study.

**Table 1. Identification of Variables**

Variables	Measuring Instrument
<b>Dependent Variable</b>	
Financial Statement Fraud	$F\text{-Score} = \text{Accrual Quality} + \text{Financial Performance}$
<b>Independent Variables</b>	
Pressure	$\text{Return on Asset} = \frac{\text{Net Profit}}{\text{Total Assets}}$
Opportunity	$\text{Ineffective monitoring} = \frac{\text{Total Independent Commissioners}}{\text{Total Board of Commissioners}}$
Rasionalization	Dummy variable; 1 if KAP is affiliated with BIG4, 0 if KAP is affiliated with a non BIG4
Competence	Dummy variable; 1 if there is a change of directors, code 0 if there is no change in directors
Arrogance	Measured by counting the number of photos of the CEO in the financial statements
Company Size	$\text{Company Size} = \text{Ln}(\text{Total Asset})$

Financial Statement Fraud is measured using the F-Score. The F-Score model is the sum of two variables, namely accrual quality and financial performance (Skousen and Twedt, 2009), which can be described in the following equation:

$$F\text{-Score} = \text{Accrual Quality} + \text{Financial Performance}$$

Where *Accrual Quality* is proxied by *RSST accruals* (Richardson et al., 2004) namely:

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

Where:

$$WC = \text{Current Asset} - \text{Current Liability}$$

$$NCO = (Total\ Assets - Current\ Assets - Investment\ and\ Advances) - (Total\ Liability - Current\ Liability - Long\ Term\ Debt)$$

$$FIN = Total\ Investasi - Total\ liabilities$$

$$ATS = (Beginning\ total\ assets + end\ total\ assets) / 2$$

Description:

WC : Working capital

NCO : Non-current operating accrual

FIN : Financial accrual

ATS : Average total assets

Meanwhile, Financial Performance is proxied in changes in receivables accounts, changes in inventory accounts, changes in cash sales accounts and changes in EBIT.

$$Financial\ Performance = Change\ In\ Receivable + Change\ In\ Inventories + Change\ In\ Cash\ Sales + Change\ In\ Earnings$$

Where :

$$Change\ In\ Inventories = \frac{\Delta\ Inventories}{Average\ Total\ Asset}$$

$$Change\ In\ Cash\ Sales = \frac{\Delta\ sales}{Sales\ t} - \frac{\Delta\ Receivables}{Receivables\ t}$$

$$Change\ In\ Earnings = \frac{Earnings\ t}{Average\ Total\ Asset\ t} - \frac{Earnings\ t-1}{Average\ Total\ Asset\ t-1}$$

The f-score value is identified using a dummy variable by assigning code 1 to companies that are indicated to have committed fraudulent financial reporting with an f-score > 1.00 and code 0 to companies that are not indicated to have committed fraudulent financial reporting with an f-score < 1.00.

Test the hypothesis in this study using path analysis (path analysis). This technique is used to test the magnitude of the contribution addressed by the path coefficient on each path diagram of the relationship between variables X to Y through Z. According to Sarwono (2006), the structural equation of path analysis is as follows:

$$Z = PZX_1 + PZX_2 + PZX_3 + PZX_4 + PZX_5 + e_1 \dots\dots\dots (1)$$

$$Y = PYX_1 + PYX_2 + PYX_3 + PYX_4 + PYX_5 + PZY + e_2 \dots\dots\dots (2)$$

Where:

- Z : Company Size
- Y : Fraud Financial Statement
- X1 : Pressure
- X2 : Opportunity
- X3 : Rationalization
- X4 : Competence
- X5 : Arrogance
- e1 : Residual Company Size
- e2 : Fraud Residual Financial Statement

Data analysis test using Sobel test (sobel test). The Sobel test is used to determine the indirect effect of the independent variable (X) on the dependent variable (Y) through the intervening variable (Z) (Ghozali, 2016). The Sobel test formula is as follows:

$$Sab = \sqrt{b^2 sa^2 + a^2 sb^2 + sa^2 sb^2} \dots\dots\dots (3)$$

With information:

- Sab = standard error magnitude of indirect effect
- a = independent variable path (X) with the intervening variable (Z)
- b = path of the intervening variable (Z) with the dependent variable (Y)
- sa = standard error coefficient a
- sb = standard error coefficient b

To test the indirect effect, it is necessary to calculate the t value of the coefficient ab with the following formula :

$$t = \frac{ab}{sab}$$

The calculated t value is compared with the t table value, if t count > t table value, it can be concluded that there is a significant effect.

## RESULT AND DISCUSSION

The hypothesis tested with path analysis using SPSS 24 by estimating the direct and indirect relationship between the independent variables and the dependent variable. The results of the analysis are presented in the following table:

**Table 4.1. Regression Analysis Results (Equation 1)**

		Coefficients <sup>a</sup>							
		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics		
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF	
1	(Constant)	21.553	.318		67.720	.000			
	PRESSURE	14.338	2.832	.423	5.063	.000	.956	1.046	
	OPPORTUNITY	.276	.351	.066	.787	.435	.959	1.043	
	RATIONALIZATION	1.564	.234	.573	6.669	.000	.904	1.107	
	COMPETENCE	.151	.224	.058	.675	.502	.892	1.121	
	ARROGANCE	.024	.035	.056	.680	.499	.984	1.016	

a. Dependent Variable: COMPANY SIZE

**Table 4.2. Regression Analysis Results (Equation 2)**

		Variables in the Equation						95% C.I. for EXP(B)	
		B	S.E.	Wald	df	Sig.	Exp(B)	Lower	Upper
Step	PRESSURE	-.581	13.064	.002	1	.965	.559	.000	7.377E+10
1 <sup>a</sup>	OPPORTUNITY	.750	1.172	.409	1	.522	2.116	.213	21.028
	RATIONALIZATION	1.521	1.027	2.192	1	.050	4.576	.611	34.259
	COMPETENCE	1.177	.804	2.141	1	.014	3.244	.671	15.690
	ARROGANCE	-.264	.174	2.320	1	.128	.768	.546	1.079
	UKURAN PERUSAHAAN	1.326	.493	7.242	1	.007	.266	.101	.698
	Constant	29.048	10.470	7.697	1	.006	4.123E+12		

a. Variable(s) entered on step 1: PRESSURE, OPPORTUNITY, RATIONALIZATION, COMPETENCE, ARROGANCE, COMPANY SIZE.

From the analysis results obtained the following equation:

$$Z = 14,338 X1 + 0,276 X2 + 1,564 X3 + 0,151 X4 + 0,024 X5 + e \dots\dots\dots (1)$$

$$Y = 0,559 X1 + 2,116 X2 + 4,576 X3 + 3,244 X4 + 0,768 X5 + 0,266Z + e \dots\dots\dots (2)$$

Summary of the results of hypothesis testing using path analysis is as follows:

**Table 4.3. Results of Direct Effect Analysis**

No	Path	Sig.	Probability Value	Conclusion
1	X1 to Z	0,000	0,05	Has significant effect
2	X2 to Z	0,435	0,05	Has no significant effect
3	X3 to Z	0,000	0,05	Has significant effect
4	X4 to Z	0,502	0,05	Has no significant effect
5	X5 to Z	0,499	0,05	Has no significant effect
6	X1 to Y	0,965	0,05	Has no significant effect
7	X2 to Y	0,522	0,05	Has no significant effect
8	X3 to Y	0,050	0,05	Has significant effect
9	X4 to Y	0,014	0,05	Has significant effect
10	X5 to Y	0,128	0,05	Has no significant effect
11	Z to Y	0,007	0,05	Has significant effect

Based on the table above, the direct effect of the path analysis results can be explained as follows:

1. Hypothesis 1 (H1) states that pressure has a direct effect on firm size. Table 4.3 shows the significance value of X1 to Z is 0.000 which is less than the probability sig. 0.05. This means that there is a direct influence between pressure on firm size.
2. Hypothesis 2 (H2) states that opportunity has a direct effect on firm size. Table 4.3 shows the significance value of X2 to Z is 0.435 which is greater than the sig probability value. 0.05. This means that opportunity does not directly affect firm size.
3. Hypothesis 3 (H3) states that rationalization has a direct effect on firm size. Table 4.3 shows the significance value of X3 to Z is 0.000, which is less than the probability sig. 0.05. This means that there is a direct effect of rationalization on firm size.
4. Hypothesis 4 (H4) states that competence has a direct effect on firm size. Table 4.3 shows the significance value of X4 to Z is 0.502, which is greater than the probability sig. 0.05. This means that competence does not directly affect company size.
5. Hypothesis 5 (H5) states that arrogance has a direct effect on firm size. Table 4.3 shows the significance value of X5 to Z is 0.499 which is greater than the sig probability value. 0.05. This means that arrogance does not directly affect company size.

6. Hypothesis 6 (H6) states that pressure has a direct effect on financial statement fraud. Table 4.3 shows the significance value of X1 to Y is 0.965 which is greater than the sig probability value. 0.05. This means that pressure does not directly affect financial statement fraud.
7. Hypothesis 7 (H7) states that opportunity has a direct effect on financial statement fraud. Table 4.3 shows the significance value of X2 to Y is 0.522 which is greater than the sig probability value. 0.05. This means that opportunity does not directly affect financial statement fraud.
8. Hypothesis 8 (H8) states that rationalization has a direct effect on financial statement fraud. Table 4.3 shows the significance value of X3 to Y is 0.050, which is less than the probability sig. 0.05. This means that there is a direct influence between rationalization and financial statement fraud.
9. Hypothesis 9 (H9) states that competence has a direct effect on financial statement fraud. Table 4.3 shows the significance value of X4 to Y is 0.014 which is less than the probability sig. 0.05. This means that there is a direct influence between competence on financial statement fraud.
10. Hypothesis 10 (H10) states that arrogance has a direct effect on financial statement fraud. Table 4.3 shows the significance value of X5 to Y is 0.128 which is greater than the sig probability value. 0.05. This means that arrogance does not directly affect financial statement fraud.
11. Hypothesis 11 (H11) states that company size has a direct effect on financial statement fraud. Table 4.3 shows that the significance value of Z to Y is 0.007, which is less than the sig probability value. 0.05. This means that there is a direct influence between company size and financial statement fraud.

The following is the result of indirect influence using the Sobel test.

**Table 4.4. Indirect Calculation Results**

No	Path	t <sub>count</sub>	t <sub>table</sub>	Conclusion
1	X1 to Y through Z	3,092	2,000	Firm size as intervening variable
2	X2 to Y through Z	1,447	2,000	Firm size not as intervening variable
3	X3 to Y through Z	2,942	2,000	Firm size as intervening variable
4	X4 to Y through Z	1,871	2,000	Firm size not as intervening variable
5	X5 to Y through Z	7,956	2,000	Firm size as intervening variable

Description: formula for finding  $t_{table} = (tn\sqrt{0.05,60})$

Based on the table above, the indirect effect of Sobel test results can be explained as follows:

**1. Indirect effect of financial target on financial statement fraud through company size.**

Based on the results of the Sobel test analysis above, it is known that the financial target path to financial statement fraud through company size has a t count of 3.902 which is greater than t table of 2.000 which means in no way financial targets directly affect financial statement fraud

through company size. This also proves that company size can be a variable intervening financial targets with financial statement fraud.

**2. The indirect effect of ineffective monitoring on financial statement fraud through company size.**

Based on the results of the Sobel test analysis above, it is known that the path of ineffective monitoring of financial statement fraud through company size has a t count of 1.447 less than t table 2.000, which means that indirectly ineffective monitoring is not effect on financial statement fraud through company size. This proves that company size cannot be an ineffective intervening variable in monitoring with financial statement fraud.

**3. Indirect effect of external auditor quality on financial statement fraud through company size.**

Based on the results of the Sobel test analysis above, it is known that the external auditor quality path to financial statement fraud through company size has a t count of 2.942 greater than t table 2.000, which means indirectly quality external auditors have an influence on financial statement fraud through company size. This proves that company size can be an intervening variable for the quality of external auditors with financial statement fraud.

**4. Indirect effect of changing company directors on financial statement fraud through company size.**

Based on the results of the Sobel test analysis above, it is known that the financial target path to financial statement fraud through company size has a t count of 1.871 which is smaller than t table 2.000, which means indirectly the quality of the auditor external has no effect on financial statement fraud through company size. This proves that company size can be an intervening variable for the quality of external auditors with financial statement fraud.

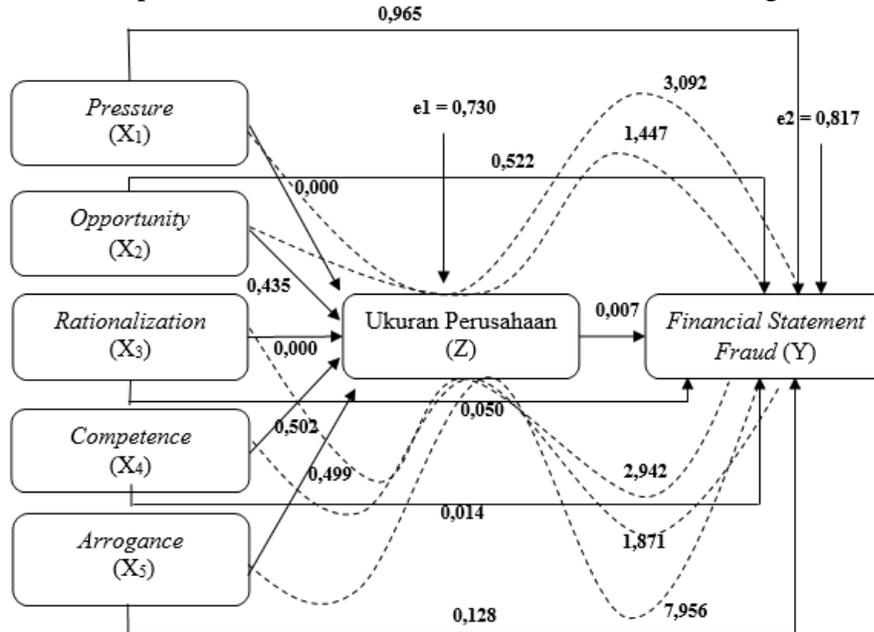
**5. Indirect effect of the number of CEO photos on financial statement fraud through company size.**

Based on the results of the Sobel test analysis above, it is known that the path between the number of CEO photos and financial statement fraud through company size has a t-count of 7.956 greater than t-table of 2.000, which means that indirectly the number CEO photos influence financial statement fraud through company size. This proves that company size can be an intervening variable in the number of CEO photos with financial statement fraud.

**Table 4.5. Table of Recapitulation of Direct and Indirect Effect**

Direct Effect			Indirect Effect	
No	Path	Conclusion	Path	Conclusion
1	X1 to Z	Has significant effect	X1 to Y through Z	Firm size as intervening variable
	X1 to Y	Has no significant effect		
2	X2 to Z	Has no significant effect	X2 to Y through Z	Firm size not as intervening variable
	X2 to Y	Has no significant effect		
3	X3 to Z	Has significant effect	X3 to Y through Z	Firm size as intervening variable
	X3 to Y	Has significant effect		
4	X4 to Z	Has no significant effect	X4 to Y through Z	Firm size not as intervening variable
	X4 to Y	Has significant effect		
5	X5 to Z	Has no significant effect	X5 to Y through Z	Firm size as intervening variable
	X5 to Y	Has no significant effect		
6	Z to Y	Has significant effect		

The final results of the path coefficients can be described in the following chart:



**Figure 4.1 Final Path Coefficient Results**

## **Discussion**

### **1. The Effect of Pressure Directly on Firm Size**

The results of the regression analysis regarding the effect of pressure on firm size state that the financial target proxied by Return on Assets has a significant positive effect on firm size. In carrying out its performance, company managers are required to perform their best so as to achieve the planned financial targets. Thus, the larger the size of the company, the greater the realization of financial targets that must be achieved. This research is also supported by Lindasari (2019) which states that company size has a strong influence on financial targets in a company.

### **2. The Effect of Opportunity Directly on Firm Size**

The results of the regression analysis regarding the effect of ineffective monitoring on firm size stated that ineffective monitoring proxied by the number of independent commissioners with the total board of commissioners had no significant effect on firm size. Thus the hypothesis which states that ineffective monitoring has an effect on company size is rejected. This shows that ineffective monitoring is not a factor influencing company size, because ineffective monitoring is not viewed from the size of the company.

### **3. The Direct Effect of Rationalization on Firm Size**

The results of the regression analysis regarding the effect of external auditor quality on firm size state that the quality of external auditors has a significant positive effect on firm size. This means that the larger the size of the company, the better the quality of the external auditors of a company. Companies that use the services of quality public accounting firms, namely external auditors affiliated with The Big Four Auditors (BIG4), are considered to have the ability to detect fraud. In general, the quality of auditors in large companies will use foreign-affiliated KAPs, so that they are able to detect fraud.

### **4. The Effect of Competence Directly on Company Size**

The results of the regression analysis regarding changes in company directors on company size stated that changes in company directors had no significant effect on company size. Thus the hypothesis which states that changes in company directors affect company size are rejected. This shows that the change of company directors is not one of the factors that influence company size. This research is supported by Lindasari (2019) which states that changes in company directors have no effect on company size.

### **5. The Effect of Arrogance on Company Size**

The results of the regression analysis regarding the number of CEO photos on company size stated that the number of CEO photos had no significant effect on company size. So that the size of a company is not affected by the number of photos of the CEO in the financial statements. According to the results of analysis of financial report data for property and construction companies listed on the Stock Exchange of Thailand, even in large-scale companies, not all financial reports include a photo of the CEO. This proves that company size has nothing to do with the number of CEO photos included in the financial statements.

### **6. Direct Effect of Pressure on Fraud Financial Statements**

The results of the regression analysis regarding the effect of financial targets on financial statement fraud state that the financial targets proxied by Return on Assets have no significant effect on financial statement fraud. This shows that the size of the financial target value cannot affect the occurrence of financial statement fraud. The results of this study are supported by research by Mafiana, et al (2016), Selny (2016) and Kenedy (2014) which show the results of research that financial targets have no effect on financial statement fraud.

However, the results of this study are in contrast to the research of Herdiana and Shinta (2018), Lindasari (2019) and Aprilia (2017) which state that financial targets have a significant positive effect on financial statement fraud.

### **7. Direct Opportunity Influence on Fraud Financial Statements**

The results of the regression analysis regarding the effect of ineffective monitoring on financial statement fraud stated that ineffective monitoring proxied by the number of independent commissioners and the total board of commissioners had no significant effect on financial statement fraud. This shows that ineffective monitoring is not a factor influencing financial statement fraud. The results of this study are supported by the research of Prekanida (2015), Nasution, et al (2019) and Fahrina Anisa, et al (2020) which state that ineffective monitoring has no significant effect on financial statement fraud. In contrast to Afanin and Evi Rahmawati's research (2019), which states that the ineffectiveness of supervision has a significant positive effect on fraudulent financial reporting.

### **8. The Direct Effect of Rationalization on Fraud Financial Statements**

The results of the regression analysis regarding the effect of external auditor quality on financial statement fraud state that the quality of external auditors has a significant positive

effect on financial statement fraud. Logically, companies that use audit services included in BIG4 are considered to have the ability to detect fraud, so that they can suppress financial statement fraud. But in reality, there are still cases of financial statement fraud in large companies that use the big four auditors' audit services. Most of the property and construction companies that are registered with the SET, the Public Accounting Firm used are affiliated with foreigners and are included in BIG4.

The results of this study are supported by research by Legowo (2019), Rini and Achmad (2012) which proves that the quality of external auditors has a significant effect on fraudulent financial reporting.

### **9. The Direct Effect of Competence on Fraud Financial Statements**

The results of the regression analysis regarding the effect of changes in company directors on financial statement fraud state that changes in company directors have a significant positive effect on financial statement fraud. Saputra and Kesumaningrum (2017) in Lindasari (2019) also show the same research results. Companies that commit fraud usually often change the composition of the board of directors because during this period there is a stress period when the company's condition is unstable. In addition, the frequent changes inkaryono the composition of the board of directors reflect political interests in the board of directors and as an effort to reduce the effectiveness of management performance because they have to adapt to the work culture of new directors (Septriani and Handayani, 2018).

The results of this study are in contrast to the research of Dewi and Dudi (2019), Nasution, et al (2019) and Legowo (2019) which state that changes in company directors have no effect on financial statement fraud. This shows that a change in directors does not necessarily indicate that the company has committed fraud and tries to cover it up by changing the composition of the company's directors.

### **10. Direct Effect of Arrogance on Fraud Financial Statements**

The results of the regression analysis regarding the effect of the number of CEO photos on financial statement fraud state that the number of CEO photos in the financial statements has no significant effect on financial statement fraud. This cannot prove that the many photos of CEOs depict arrogance which can lead to fraud. The results of this study are supported by the research results of Fahrina, et al (2020), Dewi and Dudi (2019) and Afanin and Evi (2019) which state that the arrogance factor is proxied by the number of photos of the CEO in the

financial statements, which does not affect financial statement fraud. However, it is different from Legowo's research (2019), Alviani, et al (2020) which states that the number of CEO photos in the financial reports has a significant positive effect on fraudulent financial statements.

### **11. Direct Effect of Company Size on Fraud Financial Statements**

The results of the regression analysis regarding the effect of company size on financial statement fraud state that company size has a significant effect on financial statement fraud. Companies that have a large size tend to want to show that the company is in good condition, this encourages company managers to manipulate their financial reports. This supports the hypothesis which states that company size has an effect on financial statement fraud.

## **CONCLUSION**

Based on data analysis and discussion, the following conclusions can be drawn:

1. Pressure and rationalization have a direct effect on company size, while opportunity, competence and arrogance do not have a direct effect on company size.
2. Rationalization and competence have a direct effect on financial statement fraud, while pressure, opportunity and arrogance do not have a direct effect on financial statement fraud.
3. Based on the results of the path analysis that has been carried out, it shows that company size is capable of being an intervening variable in the variables of pressure, rationalization and arrogance, while it is not capable of being an intervening variable in opportunity and competence in financial statement fraud.
4. Company size has a direct effect on financial statement fraud.

Based on the discussion and conclusions in this study, it is suggested for further research, it is better to use other pentagon fraud independent variables such as financial stability ratios, change in auditors, external pressure and nature of industry as well as the use of other dependent variables such as Beneish M-Score or with use earnings management and increase the number of population in companies in other sectors. For investors to pay attention to what factors affect fraudulent financial statements such as the quality of the external auditor used, so that they can find out sound financial reports and manipulated financial reports. Meanwhile for companies not to commit and avoid financial statement fraud. This can cause large losses for investors who

have so far relied on financial reports as a basis for making investment decisions. In addition, financial statement fraud (fraud) also has a negative impact on the company, which can reduce the company's reputation, reduce investor confidence in the company and can reduce the company's stock price.

## REFERENCES

- Afanin Mirza, Rahmawati Evi. (2019). *Pengaruh Fraud Pentagon, Kepemilikan Institusional dan Asimetris Informasi Terhadap Kecurangan Laporan Keuangan (Studi Empiris pada Perusahaan Perbankan yang Terdaftar Di Bursa Efek Indonesia Tahun 2015-2017)*. Universitas Muhammadiyah Yogyakarta
- Agustina, R. D., and Pratomo, D. (2019). Pengaruh fraud pentagon dalam mendeteksi kecurangan pelaporan keuangan. *Jurnal Ilmiah MEA (Manajemen, Ekonomi, and Akuntansi)*, 3(1), 44-62.
- AICPA, SAS No.99. (2002). *Consideration of Fraud in a Financial Statement Audit*. AICPA. New York.
- Antawirya, R. D. E. P., Putri, I. G. A. M. D., Wirajaya, I. G. A., Suaryana, I. G. N. A., and Suprasto, H. B. (2019). Application of fraud pentagon in detecting financial statement fraud. *International Research Journal of Management, IT and Social Sciences*, 6(5), 73-80.
- Aprilia. (2017). *Analisis Pengaruh Fraud Pentagon Terhadap Kecurangan Laporan Keuangan Menggunakan Beneish Model Pada Perusahaan Yang Menerapkan Asean Corporate Governance Scorecard*. Universitas Trisakti Jakarta.
- Dewi, Agustina Ratna Pratomo Dudi. (2019). *Pengaruh Fraud Pentagon dalam Mendeteksi Pelaporan Keuangan*. Universitas Telkom.
- Ghozali, I. (2016). *Aplikasi Analisis Multivariate dengan Program IBM SPSS 23 (VIII)*. Semarang: Badan Penerbit Universitas Diponegoro.
- Herdiana Rudi, Sari Shinta Permata. (2018). *Analisis Fraud Diamond Dalam Mendeteksi Financial Statement Fraud (Studi Empiris Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Periode 2015-2017)*. Universitas Muhammadiyah Surakarta.
- Hery. (2017). *Kajian Riset Akuntansi*. Jakarta. Grasindo.
- Karyono. (2013). *Forensic Fraud*. Yogyakarta: Percetakan Andi Offset.
- Kennedy. (2014). *Analisis Fraud Diamond Dalam Mendeteksi Financial Statement Fraud: Studi Empiris Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia (Bei) Tahun 2010-2012*. Fakultas Ekonomika dan Bisnis, Universitas Diponegoro.

- Legowo Indar Satria. (2019). *Pengaruh Faktor-Faktor Fraud Pentagon Dan Keahlian Komite Audit Terhadap Fraudulent Financial Reporting (Studi Empiris pada Perbankan yang terdaftar di Bursa Efek Indonesia Tahun 2014-2018)*. Fakultas Ekonomi dan Bisnis, Universitas Pancaksakti Tegal.
- Lindasari Venny. (2019). *Deteksi Kecurangan Laporan Keuangan Dengan Ukuran Perusahaan Sebagai Variabel Moderating Menggunakan Pentagon Analisis*. Fakultas Ekonomi dan Bisnis, Universitas Trisakti.
- Manurung, D. T., and Hardika, A. L. (2015). Analysis of factors that influence financial statement fraud in the perspective fraud diamond: Empirical study on banking companies listed on the Indonesia Stock Exchange year 2012 to 2014.
- Nasution Maya Sandita, dkk. (2019). *Pengaruh Fraud Pentagon Terhadap Kecurangan Laporan Keuangan (Studi Pada Perusahaan Manufaktur Sub Sektor Makanan Dan Minuman Yang Terdaftar Di Bursa Efek Indonesia Periode 2013-2017)*. Universitas Telkom Bandung.
- Rahayu, Y. D., Kartikasari, E. D., and Ani, H. N. (2020). Pengaruh Audit Internal, Pengendalian Internal, dan Moralitas terhadap Pencegahan Fraud (Studi Kasus Pada RSUD Ngimbang). *MELATI STIEKHAD*, 34(1), 99-99.
- Richardson, Scott A., Sloan, R.G., Soliman, M.T., Tuna, I. (2004). *Accrual Reliability, Earnings Persistence, and Stock Prices*. *Journal of Accounting and Economics* 39: 437-485.
- Sarwono, J. 2006. *Analisis Jalur Untuk Riset Bisnis Dengan SPSS*. Yogyakarta: Andi Offset
- Septriani, Yossi dan Desi Handayani. (2018). *Mendeteksi Kecurangan Laporan Keuangan dengan Analisis Fraud Pentagon*. *Jurnal Akuntansi, Keuangan dan Bisnis*. 11(1), 11– 23.
- Siddiq, et al. (2017). *“Fraud Pentagon Dalam Mendeteksi Financial Statement”*. Seminar Nasional dan The 4th Call for Syariah Paper. ISSN 2460-0784.
- Skousen, C. J. dan Twedt, B.J. 2009. *Fraud in Emerging Markets : A Cross Country Analysis*. <http://ssrn.com/abstract=1340586> pada 8 Oktober 2017.
- Tessa dan Harto, P. (2016). *Fraudulent Financial Reporting: Pengujian Teori Fraud Pentagon Pada Sektor Keuangan dan Perbankan di Indonesia*. Simposium Nasional Akuntansi XIX.
- Widyantari, N. L. P., and Yadnya, I. P. (2017). *Pengaruh Struktur Modal, Profitabilitas Dan Ukuran Perusahaan Terhadap Nilai Perusahaan Pada Perusahaan Food and Beverage* (Doctoral dissertation, Udayana University).
- Wolfe, D.T. and Hermanson, D.R (2004). The *FRAUD* Diamond: *Considering The Four Elements of FRAUD*. *The CPA Journal*, 74, 38-42.