

Fraudulent Financial Reporting Detection in Banking Sector: Evidence from Indonesia

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ABSTRACT-- *The aim of this research is to analyse factors that can detect fraudulent financial reporting from the perspective of pentagon theory. In this research, financial target, financial stability, external pressure, ineffective monitoring, auditor quality, change in auditors, change in directors, and frequent number of CEO's picture are the observed variables to detect fraudulent financial reporting. The population of target is banking industries listed on the Indonesia Stock Exchange during 2016-2018. 126 data were obtained by using a judgment sampling technique and was analysed using a multiple linear regression analysis. The result indicates that in partial, financial target, external pressure, ineffective monitoring, auditor quality and change in auditors have an influence to detect fraudulent financial reporting, whereas in partial, financial stability, change in auditors and frequent number of CEO's picture have not proven can detect fraudulent financial reporting.*

Keywords-- *fraudulent financial reporting, pentagon theory, banking sector*

I. INTRODUCTION

Fraud is an act that is detrimental to a country or entity and is deliberately done to obtain benefits for themselves or certain groups. According to ACFE [1], fraud is divided into three categories, the first is corruption, the second is misappropriation of assets, and the third is fraudulent financial reporting. Even though corruption was ranked the first most detrimental, but the losses caused by fraudulent financial reporting turned out to be quite large and the figure was above 10 billion rupiah. These conditions must certainly be a concern. Furthermore, according to the ACFE survey, the industries most affected by fraud are state-owned enterprises, then followed by the banking industry. Even though it is in the second position, fraud in the banking sector can cause a country's bankruptcy as experienced by Iceland in 2008 [2].

Several theories that explain analytical methods that can be used to detect fraudulent financial reporting are: triangle fraud, diamond fraud, and pentagon fraud. Diamond fraud hypothesis is an improvement of the triangle fraud hypothesis and furthermore the Pentagon fraud hypothesis is an improvement of the diamond fraud hypothesis. Cressey [3] revealed that there are three conditions that are always present in fraudulent financial reporting actions, namely pressure, opportunity, and rationalization, which is referred to as the triangle fraud. These three conditions are risk factors for fraud in various situations. Furthermore Wolfe and Hermanson [4] added capability in their hypothesis so that the four conditions are called diamond fraud. In 2011, Crowe [5] has improved a previous analysis by adding arrogance which also affected fraud. The fraud analysis model proposed by Crowe hereinafter referred to as pentagon fraud, which consists of five indicator elements, namely pressure, opportunity, rationalization, competence, and arrogance.

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The elements in Crowe's fraud pentagon theory are measured by several proxies. Pressure is measured by financial targets, financial stability, and external pressure. Opportunity is measured by ineffective monitoring and auditor quality. Rationalization is measured by change in auditors. Capability is measured by change in directors. Arrogance is measured by the frequent number of CEO's picture.

II. THEORETICAL FRAMEWORK

2.1 Fraud and Fraudulent Financial Reporting

According to SAS No.99 (6), fraud is a deliberate act by someone that can cause material errors in financial statements. The fraud theory was first developed by Cressey [3] through the fraud triangle theory. Fraud triangle states that there are three causes of fraud, namely pressure, opportunity, and rationalization, while the KNKG [7] states that fraud is a dishonest act that causes potential loss or real harm to the company, employees, and others. Types of fraud included: money laundering, theft of goods, forgery, concealment or destruction of documents/reports, or using fake documents for business purposes, or leaking company information to outsiders.

Fraudulent financial reporting is a condition when a company deliberately presents financial information that contains misstatements to deceive users of financial statements [1]. Furthermore, Goel and Gangolly [8] argued that fraudulent financial reporting occurs when financial reporting contain intentional misrepresentations or omissions of material facts (numbers, disclosures, or evidence) to deceive users.

2.2 Fraud Pentagon

Pentagon fraud consists of five elements, namely: pressure, opportunity, rationalization, capability, and arrogance.

1) Pressure

According to SAS No. 99 [6], there are several conditions related to pressure that cause a person to commit fraud, namely: financial stability, external pressure, personal financial need, and financial targets.

Pressure on an entity can be indicated by the fierce level of business competition, high vulnerability to rapid changes such as technological changes, interest rates and foreign exchange rates that can affect financial stability. External pressure is excessive pressure from third parties on management to fulfil a number of requirements or expectations. When under excessive pressure from external parties to remain competitive in terms of obtaining additional debt or external financing sources, there will be a risk of financial statement fraud [9]. Financial target is a risk of excessive pressure on management, where to achieve a good level of performance management will continue to do various ways so that the financial targets previously set by the company are achieved. Companies that have large profits are believed to be more likely to do earnings management than companies that have small profits, companies that have large profits will continue to increase profits that will be achieved for the next period in order to believe those who are interested in these financial statements believe that the company's performance is considered quite good.

2) Opportunity

Fraud not only occurs because of mere pressure, but also because of opportunities. Opportunities refer to weaknesses in a system where employees have the strength or ability to commit fraud [10]. SAS No.99 [6] stated that opportunities in financial statement fraud can occur in three categories of conditions, there are nature of industry, ineffective monitoring, and organizational structure.

3) Rationalization

Rationalization is a justification for the behaviour of committing fraud as a result of a lack of employee personal integrity or other moral reasons [10]. According to SAS No.99 [6], rationalization in companies can be measured by the auditor turnover cycle, the company's audit opinion and the ratio of total accruals divided by total assets.

4) Capability

Wolfe and Hermanson [4] argued that fraud will not occur if no one has the ability to commit fraud in detail. Fraud occurred from the pressure, then the perpetrator tried to release the pressure by seeking opportunities, furthermore rationalization limiting someone to commit fraud, if fraud has been rationalized, the offender must assess whether able to commit fraud. This capability is not only about expertise in fraud but also capability in terms of position in the company. Changes in board of directors may open up more opportunities for fraud since it would be a stress period.

5) Arrogance

According to Crowe [5], arrogance is the nature of superiority and the right or greed of the perpetrators and feels that internal control and company policies and procedures are not applied to it. This arrogance arises from the belief that they are capable of cheating and the existing internal control will not affect them so that the perpetrators commit fraud without fear of sanctions that will ensnare them [11].

2.3 Financial Target and Fraudulent Financial Reporting

Financial targets set by the company become a pressure for managers in carrying out their duties. This pressure allows a manager to manipulate financial statements in order to achieve predetermined targets. One financial target is measured by Return on Assets (ROA), which shows the rate of return on investment in company assets and to find out how efficiently the company's assets have worked to generate profits. The higher ROA targeted by the company, the more susceptible management will do earnings manipulation, which is one form of fraud, so it has a positive relationship with fraudulent financial reporting [9]. Therefore, this research used ROA to measures the financial target. The first hypothesis in this study is:

H₁: Financial Target affects the Fraudulent Financial Reporting.

2.4 Financial Stability and Fraudulent Financial Reporting

Financial stability is a picture of the stability of the company's financial condition. When the company's condition is not stable, the company's poor performance will hamper the flow and investment in the future. This is a pressure for management who then seeks to keep the company's condition stable and to carry out fraudulent

financial reporting related to the growth of the company's assets [9]. In this study, financial stability is measured by a ratio of changes in total assets, by calculating the difference in the total assets of the company in the current period with the previous period to the total assets of the previous period. Skousen et. al. [9] argued that the greater the ratio of changes in the total assets of a company, the likelihood of potential fraud in a company's financial statements is higher, so the second hypothesis in this study is:

H2: Financial Stability affects the Fraudulent Financial Reporting.

2.5 External Pressure and Fraudulent Financial Reporting

External pressure is excessive pressure for management to meet the requirements or expectations of third parties. According to SAS No. 99 [6], when excessive pressure from external parties occurs, there is a risk of fraudulent financial reporting. Lou and Wang [1]) argued that when a company experiences external company pressure, a greater risk of material misstatement can be identified due to fraud. Research conducted by Skousen et al. [9] showed that the percentage of total debt to total assets has a positive effect on fraudulent financial reporting, so the third hypothesis in this study is:

H3: External Pressure affects the Fraudulent Financial Reporting.

2.6 Ineffective Monitoring and Fraudulent Financial Reporting

SAS No. 99 [6] stated that ineffective monitoring by those responsible for managing financial reporting and internal control can trigger fraud. Skousen et. al. [9] argued that ineffective supervision is able to predict the occurrence of fraudulent financial statements. The greater number of independent audit committee members can reduce fraudulent financial reporting [13]. The proportion of independent audit committee members had a negative effect on financial statement fraud [9]. The fourth hypothesis in this study is:

H4: Ineffective Monitoring affects the Fraudulent Financial Reporting.

2.7 Auditor Quality and Fraudulent Financial Reporting

The quality of the auditor can demonstrate the ability of the auditor to find a fraudulent financial reporting [14]. In this research, auditor quality is measured by the auditor's industry specialization. Nominal scale is used to distinguish between auditors who have and who do not have specialized audits in the banking sector, where 1 is given to auditors who have specialized in the banking sector and 0 for the contrary. Auditors who have the specialization in certain fields will conduct higher quality audits. The more qualified the auditor, the more likely it will be able to detect fraud on the financial statements due to having better competence. The fifth hypothesis in this study is:

H5: Auditor Quality affects the Fraudulent Financial Reporting.

2.8 Changes in Auditors and Fraudulent Financial Reporting

Rationalization is the behavior of self-justification for wrong actions. In this research rationalization was measured by changes in auditor. The audit process can reflect companies that commit fraud. To reduce the possibility of detecting fraud, companies usually make more frequent changes in auditors to cover this up [15]. In this study, changes in auditors use a nominal scale, where 1 is for companies that change their auditors and 0 is for companies that do not change auditors during the observation period. The sixth hypothesis in this research is:

H6: Changes in Auditor affects the Fraudulent Financial Reporting.

2.9 Changes in Directors and Fraudulent Financial Reporting

Capability is an ability to provide opportunities in committing fraud. Indications of fraud can occur if done by people who have authority and can take advantage of the opportunities [4]. In this research, capability is measured by changes in directors. Change of directors who are considered more competent is done to improve the performance of the previous directors. In addition, this change can also be intended for certain political interests to replace the previous board of directors [15]. Therefore changes in directors are possible as an effort by the company to get rid of directors who are considered aware of fraud that has been committed by the company. In this research changes in directors use a nominal scale, where 1 is for companies that changes their directors and 0 for companies that do not change the directors during the observation period. The seventh hypothesis in this research is:

H7: Changes in Directors affects the Fraudulent Financial Reporting.

2.10 Frequent Number of CEO's Picture and Fraudulent Financial Reporting

Frequent number of CEO's picture can reflect that CEO has an arrogance to show their superiority in the companies. This arrogance arises from the belief that they are capable of cheating and the existing internal control will not affect them so that the perpetrators commit fraud without fear of sanctions that will ensnare them [11]. The number of depictions of a CEO in a company by display picture or profile, achievements, photos, or other information about the CEO track record that is repeatedly described in the company's annual report [5]. The eighth hypothesis in this research is:

H8: Frequent Number of CEO's Picture affects the Fraudulent Financial Reporting.

III. RESEARCH METHOD

The target population in this research is banking companies listed on the Indonesia Stock Exchange (IDX) during 2016 to 2018. Companies that provide all research data are selected as samples. The quantitative research with secondary data was developed on this research which obtained from annual reports on companies website and IDX website.

Fraudulent Financial Reporting is measured using a fraud score model (f-score) which is the sum of accrual quality and financial performance. Accrual quality is calculated by RSST accrual. RSST defines all non-cash and non-equity changes in a company's balance sheet as accruals and distinguishes the characteristics of the reliability of working capital (WC), non-current operating (NCO), and financial accruals (FIN) and the components of assets and liabilities in the type of accruals [16]. The RSST formula is as follows:

$$\text{RSST Accrual} = \Delta\text{WC} + \Delta\text{NCO} + \Delta\text{FIN} / \text{Total Assets Average}$$

Where is:

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

$$\begin{aligned} \text{NCO} &= (\text{Total Assets} - \text{Current Assets} - \text{Investment and Advances}) - (\text{Total Liabilities} - \\ &\quad \text{Current Liabilities} - \text{Long Term Debt}) \\ \text{FIN} &= \text{Total Investment} - \text{Total Liabilities} \\ \text{Total Assets Average} &= (\text{Beginning Total Assets} + \text{End Total Assets}) / 2 \end{aligned}$$

Financial performance is considered capable of predicting the potential for fraudulent financial statements [17]. Financial performance can be observed through changes in accounts receivable and changes in earnings before taxes and interests which can be formulated through the following equation:

$$\text{Financial Performance} = \text{Change in Receivables} + \text{Change in Earnings}$$

Where is:

$$\begin{aligned} \text{Change in Receivables} &= \Delta \text{Receivables} / \text{Total Assets Average} \\ \text{Change in Earnings} &= (\Delta \text{Earnings} (t) / \text{Total Assets Average} (t)) - (\Delta \text{Earnings} (t-1) / \text{Total Assets Average} (t-1)) \end{aligned}$$

Multiple regressions were selected to analyzed data to predict several factors that can be affect fraudulent financial reporting. Hypothesis testing in this research was carried out by: 1) statistical F test, which was carried out to determine the significance of the influence of the independent variables on the dependent variable; 2) determination coefficient test (R^2), which is conducted to see the large variations of the independent variables in influencing the dependent variable; and 3) significance test to analyzed the effect of independent variable on the dependent variable partially.

The regression equation model that will be tested in this study is:

$$\text{FFR} = b_0 + b_1\text{FT} + b_2\text{FS} + b_3\text{EP} + b_4\text{IEM} + b_5\text{AQ} + b_6\text{CA} + b_7\text{CD} + b_8\text{FP} + e$$

Where is:

$$\begin{aligned} \text{FFR} &= \text{Fraudulent Financial Reporting.} \\ b_0 &= \text{Constant.} \\ \text{FT} &= \text{Return on Assets (ROA).} \\ \text{FS} &= \text{Changes in Total Assets.} \\ \text{EP} &= \text{Total Debt to Total Assets.} \\ \text{IEM} &= \text{Independent Audit Committee to Total Audit Committee.} \\ \text{AQ} &= \text{Auditor Quality.} \\ \text{CA} &= \text{Changes in Auditor.} \\ \text{CD} &= \text{Changes in Director.} \\ \text{FP} &= \text{Frequent Number of CEO's Picture.} \\ e &= \text{Error.} \end{aligned}$$

IV. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

The descriptive statistics based on the data is given on table 1 and table 2.

Table 1: Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
FT	126	-.12	1.05	.02	.11
FS	126	-.29	1.90	.11	.22
EP	126	.00	1.00	.82	.11
IEM	126	.33	.67	.50	.08
FP	126	2.00	5.00	3.94	.92
FFR	126	-.22	1.87	.11	.20
Valid N (listwise)	126				

Table 2: Descriptive Statistics for Dummy Variables

	N	Frequency	Percent	Std. Deviation
AQ	126	69	54.8	.50
CA	126	44	34.9	.48
CD	126	27	21.4	.41

Table 1 showed that mean and standard deviation of financial target that measured by ROA equal to 0.02 and 0.11. Mean and standard deviation of financial stability that measured by changes in total assets equal to 0.11 and 0.22. Mean and standard deviation of external pressure that measured by total debt to total assets equal to 0.82 and 0.11. Mean and standard deviation of ineffective monitoring equal to 0.50 and 0.08. Mean and standard deviation of frequent numbers of CEO's picture equal to 3.94 and 0.92, and mean and standard deviation of fraudulent financial reporting equal to 0.11 and 0.20.

Table 2 showed that standard deviation of audit quality equals to 0.50 and the frequency of audit quality equals to 69 which means that there were 69 samples audited by the auditors that have a specialization in banking sector. Standard deviation of changes in auditor equals to 0.48 and the frequency of changes in auditor equals to 44, which means that 44 samples did the changes in auditor during the observation period, and standard deviation of changes in director equals to 0.41 and the frequency of changes in director equals to 27, which means that 27 samples did the changes in director during the observation period.

4.2 Classical Assumption Test

The multiple linear regressions model can be categorized as a good model if it is free from classical statistical assumptions, such as the distribution of data is normal, free from heteroscedasticity, multicollinearity and autocorrelation. In this research normality test measured by One-Sample Kolmogorov-Smirnov test, heteroscedasticity measured by scatterplot chart, multicollinearity measured by Variance Inflation Factors (VIF), and autocorrelation measured by Durbin Watson test.

The significance value of the Kolmogorov-Smirnov test in table 3 is 0.200. This number is greater than 0.05 and it means that the research data is normally distributed.

Table 3: One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		126
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.09604428
Most Extreme Differences	Absolute	.066
	Positive	.065
	Negative	-.066
Test Statistic		.066
Asymp. Sig. (2-tailed)		.200 ^{c,d}

Scatterplot chart illustrate the distribution of research data. Figure 1 shows that there are no clear patterns and points spread above and below zero on the Y axis. It shows that there is no heteroscedasticity in the research data.

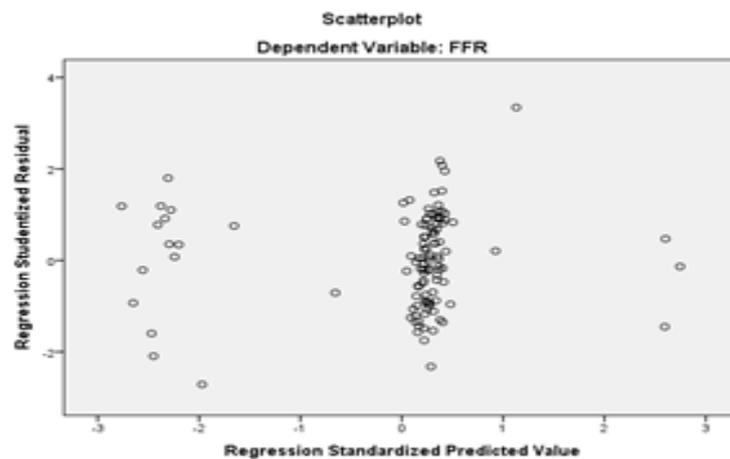


Figure 1: Scatterplot Chart

Table 4 provides information that all variables show tolerance values > 0.10 and VIF <10, therefore there is no multicollinearity between the independent variables in the regression model.

Table 4: Variance Inflation Factors (VIF) Test

Coefficients^a		
Model	Collinearity Statistics	
	Tolerance	VIF

FT	.965	1.036
FS	.915	1.093
EP	.976	1.025
IEM	.682	1.466
AQ	.843	1.187
CA	.972	1.029
CD	.733	1.364
FP	.844	1.185

a. Dependent Variable: FFR

Tabel 5: Durbin Watson Test

Model Summary ^b		
Model	Std. Error of the Estimate	Durbin-Watson
1	.859	2,247

b. Dependent Variable: FFR

Table 5 shows that the Durbin-Watson value equals to 2.147. Based on the total data (126) and independent variables ($k = 8$) at the significance level of 0.05, the value of $dl = 1.59383$ and $du = 1.82768$ was obtained. The comparison value shows that $DW 2.147 > du 1.82768$ and smaller than $4-du (2.17232)$ which means there is no autocorrelation.

4.3 The Effect of Financial Target on Fraudulent Financial Reporting

Based on statistical testing using multiple regression analysis, financial target had a positive and significant effect on fraudulent financial reporting. Table 6 showed that the significance level of FT equals to 0.015 which is smaller than 0.05.

Table 6: Multiple Regression on Fraudulent Financial Reporting

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.839	.198		9.277	.000
FT	.376	.153	.131	2.463	.015
FS	.147	.077	.104	1.907	.059
EP	.660	.153	.228	4.318	.000
IEM	-2.173	.239	-.575	-9.101	.000

a. Dependent Variable: FFR
Pressure of financial targets that management often to commit fraud in statements. High

Variable: FFR
financial targets that management often to commit fraud in statements. High

financial that management is company resources for this, get a bonus.

AQ	-.136	.036	-.215	-3.775	.000
CA	-.054	.035	-.083	-1.560	.121
CD	.130	.047	.170	2.789	.006
FP	-.014	.019	-.041	-.713	.477

performance shows able to manage well. As a reward management will Financial targets in

this research use ROA (return on assets) which illustrates the achievement of profits from the efficiency of assets owned by the company. Based on the results of this research, it was found that the higher the ROA, the higher the tendency for fraudulent financial reporting.

4.4 The Effect of Financial Stability on Fraudulent Financial Reporting

Based on statistical testing using multiple regression analysis, financial stability had no effect on fraudulent financial reporting. Table 6 showed that the significance level of FS equals to 0.059 which is greater than 0.05.

Companies are required to have good financial stability. The pressure to create financial stability makes the company's management take various ways to show that the company is in a stable financial condition. It is not uncommon for management to commit fraud on financial statements to show that the company is in a stable financial condition. In this research financial stability is measured by the ratio of changes in total assets. The results show that financial stability as measured by financial stability does not affect financial statement fraud.

4.5 The Effect of External Pressure on Fraudulent Financial Reporting

Based on statistical testing using multiple regression analysis, it was found that external pressure had a positive and significant effect on fraudulent financial reporting. Table 6 showed that the significance level of EP equals to 0,000 which is smaller than 0.05.

In this research external pressure is measured by leverage ratio, which illustrates the company's ability to meet its obligations from the assets owned. The higher of leverage, the greater of companies risk. Management must be able to convince the creditors that the company can return the loan. A high corporate leverage ratio is prone to fraudulent financial statements due to pressure to appear to have good performance and be able to pay off large loans. The results showed that the higher the debt held by the company, the higher the tendency of the company's management to commit fraud on the financial statements.

4.6 The effect of Ineffective Monitoring on Fraudulent Financial Reporting

Based on statistical testing using multiple regression analysis, it was found that ineffective monitoring had a negative and significant effect on fraudulent financial reporting. Table 6 showed that the significance level of IEM equals to 0,000 which is smaller than 0.05.

Ineffective supervision is prone to fraud on the financial statements. In this research ineffective supervision is measured by ratio of the number of independent commissioners to the number of commissioners. The results showed that the smaller the number of independent commissioners compared to the number of the board of commissioners, the greater the chance of fraud on the financial statements.

4.7 The effect of Auditor Quality on Fraudulent Financial Reporting

Based on statistical testing using multiple regression analysis, auditor quality had a negative and significant effect on fraudulent financial reporting. Table 6 showed that the significance level AQ equals to 0,000 which is smaller than 0.05.

In this research, auditor quality was measured using auditor specialization. Auditors who specialize in certain industries have the competence to better understand the field of the industry. The results of this research indicate that the better the quality of auditors, the less chance of fraud on the financial statements.

4.8 The effect of Changes in Auditors on Fraudulent Financial Reporting

Based on statistical testing using multiple regression analysis, changes in auditors had no effect on fraudulent financial reporting. Table 6 showed that the significance level of CA equals to 0.121 which is greater than 0.05.

Changes in auditors made without a basis to meet regulatory obligations may indicate fraud on the financial statements. This is done so that the new auditor cannot detect the actions of the company's management who have cheated the financial statements. The results of this research indicate that auditor turnover has no effect on fraud on financial statements. This can be caused by auditor's changes conducted as a mandatory requirement from the regulator.

4.9 The effect of Changes in Directors on Fraudulent Financial Reporting

Based on statistical testing using multiple regression analysis, change in directors had a positive and significant effect on fraudulent financial reporting. Table 6 showed that the significance level of CD equals to 0.006 which is smaller than 0.05.

Change of directors can be an effort for companies to improve the performance of previous directors, but the change of directors can also be considered as an effort to reduce the effectiveness of management performance because it requires more time for management to adapt to the new director's work culture. The results of this research indicate that the change of directors influences the tendency for fraud on financial statements.

4.10 The effect of Frequent Number of CEO's Picture on Fraudulent Financial Reporting

Based on statistical testing using multiple regression analysis the frequent number of CEO's pictures had no effect on fraudulent financial reporting. Table 6 showed that the significance level of FP equals to 0.477 which is greater than 0.05.

The number of CEO photos displayed in a company's annual report can represent the level of arrogance or superiority of CEO. A high level of arrogance of CEO can be used as a justification for committing fraud because they have a strong power and a high position in the company. The results of this research did not find evidence that the frequency of CEO photos in the annual report affects the tendency of fraudulent actions on financial statements.

V. CONCLUSIONS

Based on the results of this research, financial target had a positive and significant effect on the detection of fraudulent financial reporting. The higher the ROA amount, the higher the tendencies of fraudulent financial reporting. The Financial stability had no effect on the detection of fraudulent financial reporting. There was no

evidence that in order to obtain financial stability, management commit fraudulent financial reporting. External Pressure had a positive and significant effect on the detection of fraudulent financial reporting. The higher the leverage ratio amount, the higher the tendencies of fraudulent financial reporting. Effective monitoring had a negative and significant effect on the detection of fraudulent financial reporting. The higher the ratio of independent commissioner's number, the lower the tendencies on fraudulent financial reporting. Auditor quality had a negative and significant effect on the detection of fraudulent financial reporting. The more qualified the auditor, the lower the opportunity for fraudulent financial reporting. Change in auditors had no effect on the detection of fraudulent financial reporting. There was no evidence that the change of auditors was indicated that management commit fraudulent in financial reporting. Change in directors had a positive and significant effect on the detection of fraudulent financial reporting. The more frequent changes in directors can indicate the higher management's efforts to make fraudulent financial reporting. Frequency of CEO's picture had no effect on the detection of fraudulent financial reporting. There was no evidence that the number of CEO photos that appear in annual reports indicates that management is arrogant and free to commit fraudulent financial reporting.

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