Fraud Pentagon and Fraudulent Financial Reporting in Jakarta Islamic Index

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Abstract

This study aims to examine pentagon fraud with five elements that can influence the occurrence of fraudulent financial reporting on the Jakarta Islamic Index. fraud pentagon has five elements there is pressure, opportunity, rationalization, competence (competence/ability), and arrogance. This research is a quantitative study using logistic regression analysis methods with SPSS tools. The results showed that fraud pentagon with five elements can influence the occurrence of fraudulent financial reporting in companies incorporated in the Jakarta Islamic Index. But among the five elements are pressure, opportunity, rationalization, competence (competency /ability), the element of arrogance does not have a significant effect on the occurrence of fraudulent financial reporting.

Keywords: *Teori Fraud Pentagon, Fraudulent Financial Reporting, Jakarta Islamic Index*

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INTRODUCTION

The phenomenon of fraud that occurs in companies begins with the opportunity to make deviations. According to Tuanakotta's definition, fraud is a deliberate act by one or several people in management, employees or third parties (Tuankotta, 2013). This action does not depend on threats of violence or physical force, but fraud committed by parties and organizations to get money, wealth, or services, to avoid payment or loss of services, or to obtain personal or

business benefits. Economic unrest makes it easier for employees to find ways to commit fraud in new movements and types of devious ways (Howarth, 2010) .

Islam strongly rejects all acts of fraud, because it will cause harm to all parties. Islam instructs humans to cooperate in all things, except in committing sins against Allah or carrying out persecution of fellow creatures, as the word of God in the Surah Al-Ma'idah verse 2:

> "And cooperate in righteousness and piety, but do not cooperate in sin and aggression. And fear Allah; indeed, Allah is severe in penalty".

Cheating has serious consequences and brings many losses. Based on the report of the Association of Certified Fraud Examiners (ACFE), in 2016 estimated that organizations suffered losses due to fraud around 5% of the current year's revenue. Total losses due to fraud cases exceeded $ 6.3 billion with an average case loss of $ 2.7 million. The results of the ACFE study of 114 different countries around the world were investigated from January 2014 to October 2015 there were 2410 cases of work fraud. The countries are United States, Sub-Saharan Africa, Asia-Pacific, Latin America & the Caribbean, Western Europe, Eastern Europe & Western / Central Asia, Southern Asia, Canada, and Middle East & North Africa.

This phenomenon requires further analysis that companies can also be involved in deviations. Irregularities can have devastating consequences for social and economic conditions. Thus the need to apply the principles of transparency and accountability. The realization of transparency and accountability can be implemented in the form of good corporate governance. One that applies the principles of transparency and accountability is companies in the Jakarta Islamic Index.

Jakarta Islamic Index is one of the stock indexes in Indonesia that calculates the average price index of shares for types of stocks that meet sharia criteria. The Jakarta Islamic Index consists of 30 issuers that are included in shariah criteria and includes shares that have large capitalization and high liquidity, which are reviewed by the Indonesia Stock Exchange (ISE) every six months (Mulyani, 2014).

But it does not rule out the possibility that companies listed on JII will not commit fraud. If the issuer cheats on the financial statements will have a bad impact later, investors will no longer trust the sharia system in JII. This will have an impact on Islamic finance that cannot be developed

in Indonesia. therefore fraudulent financial reporting should not occur in companies incorporated in JII. Financial reporting is a problem that cannot be underestimated. From year to year, fraud cases are always found. Auditors must be able to consider the possibility of fraud from a variety of perspectives, one of the theories that is often used to assess fraud is the fraud triangle theory (fraud triangle) that was coined by Cressey (1953).

Cressey (1953) revealed that financial reporting fraud occurred due to three factors, that is pressure, opportunity, and rationalization. Then Wolfe and Hermanson (2004) put forward their findings with fraud diamond theory, in this theory adding one element that is believed to have a significant influence on fraud, that is capability. Not stopping at diamond theory fraud, Howart also helped refine the theory that was coined by Cressey (1953). Howart (2010) found a study that arrogance and competence elements also influence fraud. So that the fraud model found by Crowe consists of five indicator elements, that is pressure, opportunity, rationalization, competence, and arrogance. The theory presented by Howart in 2010 is called the crow's fraud pentagon theory.

Each of the elements of crow's fraud pentagon theory cannot be investigated directly, so it requires variable proxies. Proxies that can be used for this research include pressure that is proxied by, financial targets, financial stability, external pressure, and institutional ownership. Opportunity is proxied by ineffective monitoring and external auditor quality, rationalization is proxied by change in auditor, competence is proxied by a change of company directors, and arrogance is proxied by the frequent number of CEO's picture. The five factors are indicated to be a trigger for fraud. Fraudulent financial reporting can start from the desire of the company so that the company's operational activities are guaranteed going concern with always lookinggood. Based on the explanation, the writer is interested in proving whether the pentagon fraud theory with five factors triggering the occurrence of fraudis able to influence fraudulent financial reporting on the Jakrta Islamic Index.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Fraud Pentagon Theori

Pentagon fraud theory or also called crowe fraud pentagon theory is an extension of the fraud triangle model developed by Donald Cressey (1953). Cressey (1953) concluded the results of his research that fraud has three common characteristics that are present when fraud occurs, that is incentive

or pressure to commit fraud (pressure), the opportunity or opportunity to commit fraud (opportunity), then there is a pretext to justify acts of fraud (rationalization). These three general characteristics explain why someone commits fraud (Priantara, 2013). Fraud triangle helps identify fraud but not all situations. Then Howart (2010) developed the fraud model into five elements, namely pressure, opportunity and rationalization, competence, arrogance (Howart, 2010).

Fraudulent Financial Reporting

Fraudulent financial reporting or also known as fraudulent financial statements. The first scientist, Eliott and Willingham who defined fraudulent financial reporting as intentional fraud committed by management against investors and creditors through misleading financial statements (Dalnial, 2014). False financial statements can be used to justify selling shares, obtaining loans or trade credits, and/or fixing human agerial compensation and bonuses.

Agency Theori

Agency theory is the theoretical basis that underlies the company's business practices used so far. Agency theory describes the relationship between shareholders as the principal and management as an agent in a contract of cooperation. Management is a contracted or authorized party by shareholders (investors) to work in the interests of shareholders. Because it has been contracted, then the management must account for all its work to shareholders.

Jensen and Meckling (1976) state that an agency relationship is a contract between the manager (agent) and the owner (principal). This agency relationship arises when one or more people (principals) employ other people, that is agents to provide a service and then delegate decision making authority to the agent. As an agent it is morally responsible to optimize the profits of the owners (principal), but on the other hand the manager also has an interest in maximizing their welfare (Ujiyanto, 2007). Conflict of interest or differences in interests between principals and agents can trigger agency problems that can affect the quality of reported earnings.

Fraud Score Model (F-Score)

The F-Score model is a composite measure based on the development of a discretionary accrual model with other variables, to estimate the level of

risk of fraudulent financial statements which is developed by Dechow *et al.* (2010). This model is built from the dimensions of accrual quality variables, financial performance, and variables related to the market. The variable component of the F-Score includes two things that can be seen in financial statements, namely accrual quality and financial performance. The F-Score model can be calculated using the following formula:

F-Score = RSST Accrual + Financial Performance

Dechow *et al.* (2010) revealed that, the F-Score they developed had a very strong ability as a tool to measure the level of risk or the tendency of fraudulent financial statement actions.

H1: Influence of Financial Targets in Detecting Financial Reporting Fraudulent

Every company has targets in increasing company finances. Financial targets are excessive pressure on management or operating personnel to achieve financial targets set by directors or management (Widarti, 2015). To measure the company's return on performance that has been done by using return on assets (Skousen, *et al.,* 2015). Financial targets and sales targets as well as profit intensive are determined by directors or management. Indirectly, these financial targets become a special pressure for the manager to achieve the specified targets. From these assumptions it can be seen that the pressure on the financial target can affect the fraudulent financial reporting.

H2: Effects of Financial Stability in Detecting Financial Reporting Fraudulent

Companies that have financial stability have a special attraction for investors. But in the company's activities sometimes the company has obstacles caused by economic conditions, industry, and the situation of the operating entity, so that the financial instability (Skousen *et al.,* 2015). If the investor knows that the financials of the company are unstable, then the investors will not invest or invest in companies whose financials are unstable. This situation puts managers under pressure. To cover this up, managers deliberately manipulate financial statements by showing stable financials. Based on this assumption, it is assumed that there is a positive influence of financial stability on fraudulent financial reporting.

H3: The Effect of External Pressure in Detecting Fraudulent Financial Reporting

External pressure is the pressure obtained by the company from outside parties (Skousen *et al.,* 2015). External pressures occur when companies face great difficulties in fulfilling high-risk credit loans. The higher the credit risk, the greater the level of concern of creditors to provide loans to companies.

Skousen said that one of the pressures that company management often experienced was the need to obtain additional debt or external financing sources to keep the company to still competitive (Skousen *et al.,* 2015). This condition creates a high risk so that the tendency for fraudulent financial reporting is greater. Based on this assumption, it is suspected that there is a positive influence of external pressure on fraudulent financial reporting.

H4: The Effect of Institutional Ownership in Detecting Fraudulent Financial Reporting

The amount of share ownership by institutions rather than individual stock ownership makes management make more effort so as not to lose investors. Sometimes in running their business, the management experiences problems so they cannot perform as expected by the institution. If the institution knows the actual state of the company then the possibility of shares that have been invested will be withdrawn. At such times the management is under high pressure, so as not to lose the investor manager manipulating financial statements. Based on this assumption, it is suspected that there is a positive influence of institutional ownership on fraudulent financial reporting.

H5: Effect of ineffective Monitoring In Detecting Fraudulent Financial Reporting

Skousen *et al.* (2006) explained that ineffective monitoring is ineffective monitoring by companies due to the weakness of the company's audit committee system. Widespread accounting scandals and cheating practices are one of the effects of the weakness of supervision by companies that have provided an opportunity for someone to act in accordance with their personal interests. Lack of supervision from internal parties is an opportunity for management to maximize personal profit. Therefore to prevent fraud, another party is needed to oversee management such as an independent board of commissioners. Based on these assumptions, it is suspected that ineffective monitoring has a positive effect on fraudulent financial reporting.

H6: The Effect of External Auditor Quality in Detecting Fraudulent Financial Reporting

The quality of the auditor can be stated good or not based on an examination that has been carried out by the auditor. External auditors who work at large audit companies or BIG 4, have more ability to detect and disclose fraud compared to companies audited by non-BIG 4 audit firms (Halim, 1997). This shows that the auditor has a good reputation for providing quality audit work that is effective and efficient. Based on these assumptions, it is suspected that the quality of the external auditor has a positive effect on fraudulent financial reporting.

H7: The Effect of Change In Auditors in Detecting Fraudulent Financial Reporting

Change in auditor or also referred to as auditor change is a behavior carried out by companies to switch auditors. Management is more likely to replace its auditors in anticipation of some agency problems. Companies that frequently change auditors tend to be associated with fraudulent financial statements. From this assumption, it is assumed that change in auditor has a positive effect on fraudulent financial reporting.

H8: Effect of Companies Directors Substitution in Detecting Fraudulent Financial Reporting

Fraud will not occur if the person does not have the ability to commit fraud. Thus the person must have the ability to recognize opportunities as an chance to take advantage (Crowe, 2012). Directors subtitution do not always have a good impact on the company, on the other hand the director subtitution may be an attempt by the company to get rid of directors who are considered to know fraud committed by the company. In addition, the directors substitution requires time to adapt to the new culture thereby reducing effectiveness in performance. This will cause a period of stress that results in the opening of opportunities for fraud. Based on this assumption, it is assumed that the change of director has a positive effect on fraudulent financial reporting.

H9: Effect of Frequent Number Of CEO's Company Image in Detecting Fraudulent Financial Reporting

According to Howarth (2010) arrogance or lack of conscience is an attitude of superiority and the right or greed of people who believe that internal control is not personally applied. Yusof, *et al*. suggested that the number of CEO picture in the company's annual report could be one of the important proxies in measuring

arrogance. Besides Yusof, *et. al* (2015) also stated that the increasing number of CEO picture displayed on an annual report could indicate the high level of CEO arrogance in the company (Yusof et al, 2015). Howart (2012) states that high arrogance will lead to fraud. This is because the CEO feels that any internal control will not apply to him because of his status and position. In addition there is the possibility that the CEO will do whatever it takes to maintain his position. Based on these assumptions, it is assumed that frequent number of CEO's picture has a positive effect on fraudulent financial reporting.

RESEARCH METHODS

The population in this study is the financial statements of companies listed in the Jakarta Islamic Index (JII) in 2013-2016. The Islamic stock index or the Jakarta Islamic Index (JII) is an index consisting of 30 shares accommodating Islamic investment in Islam or an index based on Islamic sharia. The Jakarta Islamic Index was launched on July 3, 2000 by the Indonesia Stock Exchange in collaboration with PT Danareksa Investment Management (Soemitra, 2014). JII is issued with the aim of guiding investors who want to invest their funds in a sharia manner. With the presence of the sharia index, investors have been provided with shares that can be used as a means of investing by applying sharia principles. The total population in this study amounted to 120 financial statements. The samples in this study were 83 samples that fit the sampling criteria.

Fraudulent financial reporting in this study was proxied by the F-Score Model as determined by Dechow *et al*. The variable component of the F-Score includes two things that can be seen in the financial statements, thatis accrual quality which is proxied by RSST accrual. RSST accrual, came from Richardson, Sloan, Soliman, and Tuna. Furthermore, financial performance is proxied by changes in accounts receivable, changes in inventory accounts, changes in cash sales accounts, changes in EBIT (ernings before interest and taxes). The F-Score model is the sum of two variables, that is accrual quality and financial performance, it can be described in the following equation:

F-Score = RSST Accrual + Financial Performance

$$\text{RSST Acrual} = \frac{\Delta WC + \Delta NCO + \Delta FIN}{ATS}$$

Explanation:

WC = [Current Assets – Cash and Short term Investments - (Current Liability – Debt in Current Liabilities)]
NCO = [Total Assets – Current Assets – Investments and advances – (Total

Liabilities – Current Liabilities – Long Term Debt)]
FIN = [Short term Investments + Long term Investments – (Long Term Debt + Debt in Current Liabilities)]

$$ATS = \frac{Begining\ Total\ Assets + End\ Total\ Assets}{2}$$

WC : Working Capital
NCO : Non-current operating
FIN : Financial
ATS : Average Total Assets

Financial Performance
Financial performance = change in receivable + change in inventories + change in cash sales + change in earnings.

Expanation:
Change in receivable = Δ Receivable / Average Total Assets
Change in Inventory = Δ Inventory / Average Total Assets
Change in cash sales = [(Sales / sales (t) – (Receivable / receivable (t))]
Change in earnings = [(Earnings (t) / Average Total Assets (t)) - (Earnings (t-1) / Average total Assets (t-1))]

The company is predicted to commit fraud financial reporting if the value of the fraud score of the company's model is more than 1, whereas if the value is less than one, the company is not predicted to commit financial reporting fraud.

The independent variables used in this study are pressures categorized in financial targets (X1) which are proxied by Return On Assets (ROA), financial stability (X2) which are proxied by the ratio of total asset change (ACHANGE), external pressure (X3) which is proxied with the Leverage ratio (LEV), personal financial need proxied by institutional ownership (X4), ineffective monitoring (X5) proxied by the ratio of independent commissioners (BDOUT), and the quality of external auditors (X6). Rationalization is categorized as change in auditor (X7). Competence which is proxied by changes in directors (X8). Arrogance is proxied by the frequent number of CEO's picture (X9).

Measurement of Operational Variables

Research variable	Measurement
Fraudulent Financial Reporting	Dummy variable = code 1 if predicted to commit fraud and code 2 if otherwise
Financial Target	ROA = $\frac{net\ profit}{Asset\ total}$
Financial Stability	ACHANGE = % Changes in assets for two years
External Pressuare	Lev = $\frac{Liability\ Total}{Asset\ Total}$
Institusional Ownership	OSHIP = $\frac{shares\ owned}{outstanding\ shares}$
Inefective Monitoring	BDOUT = $\frac{\text{Number of independent commissioners}}{total\ number\ of\ commissioners}$
Quality of External Auditors	Dummy variable = code 1 if not using KAP BIG 4 audit services, and code 2 if using KAP BIG 4
Change in Auditor	Dummy variabel = code 1 if there is a change in the Public Accounting Firm during the 2013-2016 period, code 2 if the opposite is true
Pergantian Direksi	Dummy variable = code 1 if there is a change of directors in the company, and code 2 if there is no change of directors
Frequent Number of CEO's Picture	Total photos of CEOs displays in an annual report

ANALYSIS METHOD

This research method is logistic regression analysis using SPSS 21 software tool to analyze the effect of the independent variables on the dependent variable. The logistic regression model is:

$$Ln \frac{FFR}{1-FFR} = \alpha + \beta 1ROA + \beta 2ACHANGE + \beta 3LEV + \beta 4OSHIP + \beta 5BDOUT + \beta 6KAPBIG + \beta 7CHANGEAUD + \beta 8CHANGEDIR + \beta 9FNCEOP + \varepsilon$$

Keterangan:

α	= *constant*
β	= *regression coefficient*
ROA	= *Return on Asset*
$ACHANGE$	= *Change in Assets*
LEV	= *Leverage*
$OSHIP$	= *Shareholding*
$BDOUT$	= *Independent Commissioner*
$KAPBIG$	= *KAP BIG4*
$CHANGEAUD$	= *Change of auditors*
$CHANGEDIR$	= *Change of Director*
$FNCEOP$	= *the number of CEO's photos on display*
ε	= *Residual Error*

RESULTS AND DISCUSSION

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
FFR	83	1,00	2,00	1,7711	0,42269
ROA	83	1,00	54,40	10,7381	10,49325
ACHANGE	83	-11,44	102,66	14,0124	19,08418
LEV	83	0,13	0,73	0,4466	0,17792
OSHIP	83	0,59	97,03	61,7871	17,73098
BDOUT	83	0,17	0,80	0,4186	0,14007
KAPBIG	83	1,00	2,00	1,7470	0,43738
CHANGEAUD	83	1,00	2,00	1,7229	0,45029
CHANGEDIR	83	1,00	2,00	1,5904	0,49476
FNCEOP	83	1,00	7,00	3,0964	1,38471
Valid N (listwise)	83				

Source: Data Results SPSS 21

Based on the table above, it can be explained that the fraudulent financial reporting variable with 83 data has the lowest value of 1 and has the highest value of 2 (using a dummy variable) with an average value of 1.7711 and a standard deviation value of 0.42269. The financial target has the lowest value of 1 and has the highest value of 54.40, an average value of 10.7381 with a standard deviation of 10.49325.

External pressure has the lowest value of 0.13 and has the highest value of 0.73, an average value of 0.4466 with a standard deviation of0.17792. Institutional ownership has the lowest value of 0.59 and has the highest value of 97.03, an average value of 61.7871 with a standard deviationof 17.73098. Effective monitoring has the lowest value of 0.17 and has the highest value of 0.80, an average value of 0.4186 with a standard deviation of 0.14007. Auditor quality has the lowest value is 1 and has the highest value of 2 (using dummy variables), the average value is 1.7470 with astandard deviation of 0.43738.

Change in auditor has the lowest value of 1 and has the highest value of 2 (using a dummy variable), an average value of 1.7229 with a standard deviation of 0.45029. Substitution of directors has the lowest value of 1 and has the highest value of 2 (using a dummy variable), an average value of 1.5904 with a standard deviation of 0.49476. Frequent number of ceo picture has the lowest value of 1 and has the highest value of 7, an average value of 3.0964 with a standard deviation of 1.38471.

Assessing the Feasibility of the Regression Model

The feasibility of the regression model was assessed using the Hosmer and Lemeshow's Goodness of Fit Test. The statistical value of Hosmer and Lemeshow's Goodness of Fit Test is 6.294 with a significance probability of 0.614 whose value is well above 0.05. Thus it can be concluded that the model is able to predict the value of its observations.

Coefficient of Determination

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	25.564[a]	.536	.813

Source: Data Results SPSS 21

The table above shows the value of Nagelkerke R Square is 0.813 which means that the variability of the dependent variable can be explained by the independent variable is 81.3% the remaining 18.7% (100%-81.3%) explained the variability of other variables outside Research Model.

Tabel Variabel in the Equation

Variables in the Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)	95.0% C.I.for EXP(B)	
								Lower	Upper
Step 1[a]	ROA	.444	.205	4.713	1	.030	1.559	1.044	2.329
	ACHANGE	.020	.036	.302	1	.582	1.020	.950	1.096
	LEV	1.465	4.078	.129	1	.719	4.329	.001	1.280E4
	OSHIP	-.044	.037	1.367	1	.242	.957	.889	1.030
	BDOUT	4.733	6.745	.492	1	.483	113.645	.000	6.260E7
	KAPBIG	2.861	1.350	4.492	1	.034	17.482	1.240	246.419
	CHANGEAUD	2.844	1.306	4.743	1	.029	17.178	1.329	222.012
	CHANGEDIR	4.923	1.896	6.740	1	.009	137.479	3.342	5.656E3
	FNCEOP	-.092	.430	.046	1	.830	.912	.393	2.117
	Constant	-18.286	7.901	5.356	1	.021	.000		

Source: Data Results SPSS 21

The Effect of Financial Targets on Fraudulent Financial Reporting

Financial target variable proxied by ROA shows a positive coefficient of 0.444 with a significance of 0.030. The results showed that the financial target had an significant effect

Classification Matrix

Based on the classification matrix test produced predictions of companies that cheated financial statements of 19 companies and the results of observations showed companies that committed fraud as many as 15 companies. So the accuracy of classification is 15/19 or 78.9%. And according to predictions, 64 companies did not commit fraud, while observations showed that 63 companies did not commit fraud, so classification accuracy was 63/64 or 98.4% to fraudulent financial reporting. Financial targetsare the responsibility of management in generating profits through salesand is responsible for providing incentives to investors. This responsibility indirectly puts enormous pressure on management to achieve maximum profits. With this financial pressure, the management is cheating on the financial statements.

This study supports research conducted by Widarti (2015) and research from Christopher J. Skousen et. al. In 2009 which stated that the financial target had a relationship with the occurrence of fraudulent financial reporting. It can be concluded that the level of financial targets provided by investors will affect the occurrence of fraudulent financial reporting.

The Effect of Financial Stability on Fraudulent Financial Reporting

Financial stability variable which is proxied by ACHANGE, shows a positive coefficient value of 0.020 with a significance of 0.582. The results showed a significance greater than 0.05 (5%) meaning that this variable had no significant effect on fraudulent financial reporting. This is because not all management manipulates financial statements so that they always look stable. Because manipulating financial statements going forward will make it difficult for the company. In maintaining financial stability management can improve the performance of human resources so that they manage their finances well. In addition the company management holds the principle of good corporate responsibility which presents financial statements correctly and honestly. The results of this study are in accordance with the research of Ulfah, Nuraina and Wijaya (2017) which states that financial stability has no effect on fraudulent financial reporting. So, it can be concluded that financial stability or not does not affect the occurrence of fraudulent financial reporting.

The Effect of External Pressure on Fraudulent Financial Reporting

The external pressure variable which is proxied by leverage shows a significance value of 0.719. The results showed a significance greater than 0.05 (5%) it is means that it had no significant effect on fraudulent financial reporting. The reason leverage is not able to detect fraudulent financial reporting is that most of the company's debts come from third party funds that have lower interest costs than other debts with the support of increased assets so that the company is still able to pay its debts. In addition, companies can find additional capital by not adding debt, which is by issuing shares again. This study is consistent with the results of research conducted by Ulfah, Nuraina and Wijaya (2017) who found that external pressure had no effect on fraudulent financial reporting. So it can be concluded that the size of the external pressure does not affect the occurrence of fraudulent financial reporting.

The Effect of Institutional Ownership on Fraudulent Financial Reporting

Institutional ownership variable proxied by OSHIP shows a negative coefficient of 0.044 with a significance of 0.242. The results showed a significance greater than 0.05 (5%) it is means that this variable had no significant effect on fraudulent financial reporting. This shows that the ownership of shares by institutions cannot influence management to commit fraud on the financial statements. It can be concluded whether or not there is pressure from institutional shareholders the management does not carry out fraudulent financial reporting. This research is in line with Apriliana and Agustina's research (2017).

The Effect of Ineffective Monitoring on Fraudulent Financial Reporting

The ineffective monitoring variable which is proxied by BDOUT, shows a positive coefficient of 4.733 with a significance of 0.483. The results showed a significance greater than 0.05 (5%) it is means that this variable had no significant effect on fraudulent financial reporting. This is due to effective supervision having no impact on financial reporting. The existence of an independent board of commissioners generally provides independent and objective monitoring of the company. In addition, the number of independent board of commissioners is only to fulfill the regulation that at least 30% of the number of board of commissioners. Thus the large number of independent board of commissioners does not influence management to commit fraud on the financial statements. This study supports the study of Skousen et.al which states the proportion of independent commissioners or BDOUT does not have a significant effect on the occurrence of fraudulent financial reporting.

The Effect of Auditor Quality on Fraudulent Financial Reporting

The auditor quality variable which is proxied by KAPBIG4, shows a positive coefficient of 2.816 with a significance of 0.034. The results showed a significance of less than 0.05 (5%) it is means that this variable had a significant effect on fraudulent financial reporting. This is because if the company is audited by KAP BIG 4 is assumed to have more expertise and apply accounting standards correctly and will have less errors in presenting financial statements. It can be concluded whether the quality of the auditor's good or bad affects the fraudulent financial reporting. This study supports research conducted by Siska and Linda (2017) which states that auditor quality influences fraudulent financial reporting.

The Effect of Change in Auditor on Rraudulent Financial Reporting

Change in auditor variable shows a positive coefficient of 2.844 with a significance of 0.029. The results showed a significance of less than 0.05 (5%) it is means that this variable had a significant effect on fraudulent financial reporting. This is because the management believes that the actions taken are not fraudulent, but all of that is their right to service in developing the company. To cover up the actions taken by management, the auditor changes to avoid being detected by the previous auditor. So it can be concluded that the frequent change of auditors can influence the occurrence of fraudulent financial reporting. This study supports the research of Siddiq, Achyani, and Zulfikar (2017) which states that change in auditor has an influence on the occurrence of fraudulent financial reporting.

The Effect of Substitution of Directors on Fraudulent Financial Reporting

Variable change of directors shows a positive coefficient of 4.923 with a significance of 0.009. The results showed a significance of less than 0.05 (5%) meaning that this variable had a significant effect on fraudulent financial reporting. This is due to the ability of the offender to commit fraud. Change of directors resulted in the need for adaptation to the new culture of the company so that it reduces effectiveness in performance or also called a stress period which creates opportunities for fraud. This study supports the findings of Wolf and Hermanson in 2004. So it can be concluded that the frequent changes of directors affect the occurrence of fraudulent financial reporting.

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

The results showed a significance value of 0.912 greater than 0.05 (5%). This means that the frequent number of CEO's picture variables have no effect on fraudulent financial reporting. This study supports Apriliana's research in 2017. This is because management feels it is important to show CEO photos so that the public especially stakeholders know who the CEO of the company is. It can be concluded that whether or not many CEO photos posted on the financial statements do not affect the occurrence of fraudulent financial reporting.

CONCLUSION

The conclusion of the hypothesis in this study is the financial target (X1), auditor quality (X6), change in auditor (X7), change of directors (X8) can

influence the occurrence of fraudulent financial reporting. Whereas financial stability (X2) external pressure (X3), institutional ownership (X4), ineffective monitoring (X5), frequent number of CEO's picture (X9) cannot influence the occurrence of fraudulent financial reporting. Based on the conclusions of all the previous hypotheses, this study concludes that the pentagon fraud theory with five elements which are risk factors for fraud can indicate fraudulent financial reporting in companies incorporated in the Jakarta Islamic Index.

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