

Comparative Analysis Of Crowe's Fraud Pentagon Theory On Fraudulent Financial Reporting

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Abstract: The fraud Pentagon is expected to be able to detect fraudulent financial statements more deeply because there is a component of arrogance that was not previously found in research using the fraud triangle and fraud diamond. The sample is manufacturing companies listed on the Indonesian and Malaysian Stock Exchanges with a total of 298 companies with an observation period of 2 years. The results show that the variables of pressure, opportunity, arrogance, and competence have no effect on financial statement fraud. From the paired sample t-test, it was found that there is an effect between manufacturing companies listed on the Indonesian and Malaysian Stock Exchanges. At the same time, the rationalization variable has an effect on financial statement fraud. From the results of the paired sample t-test, it was found that there was no difference in the effect between manufacturing companies listed on the Indonesian and Malaysian Stock Exchanges.

Keywords: Crowe's Fraud Pentagon; Fraudulent Financial Statements; Manufacturing Companies; Indonesian Stock Exchange; Malaysian Stock Exchange.

Abstrak: *Fraud Pentagon* diharapkan mampu mendeteksi kecurangan laporan keuangan lebih dalam dikarenakan terdapat komponen arogansi yang sebelumnya tidak terdapat pada penelitian yang menggunakan *fraud triangle* dan *fraud diamond*. Sampel penelitian ini perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia dan Bursa Malaysia sejumlah 298 perusahaan dengan masa observasi 2 tahun. Hasil penelitian menunjukkan bahwa variable tekanan, peluang, arogansi dan kompetensi tidak berpengaruh pada kecurangan laporan keuangan. Hasil *uji paired sample* ditemukan bahwa tidak ada perbedaan pengaruh antara perusahaan manufaktur yang terdaftar di BEI dan Bursa Malaysia. Sedangkan variable rasionalisasi berpengaruh pada kecurangan laporan keuangan. Dari hasil *uji paired sample t-test* ditemukan bahwa tidak ada perbedaan pengaruh antara perusahaan manufaktur yang terdaftar di BEI dan Bursa Malaysia.

Kata Kunci: Crowe's Fraud Pentagon; Kecurangan Pelaporan Keuangan; Perusahaan Manufaktur; Bursa Efek Indonesia; Bursa Malaysia.

INTRODUCTION

Financial statements are the key for companies to show the quality and condition of the company's financial performance. Financial reports are also a means of communication between companies and their stakeholders. The communication in question is in the form of financial data in the financial statements as well as the company's business activities which will later be submitted to stakeholders as a form of accountability for various flows of credit and investment funds that enter the company. In addition, communication in the form of an accountability report is expected to attract new investors to invest in the company. Due to the importance of a financial report for the company, sometimes management actually covers up the actual conditions that occur in the financial statements by committing fraud



in the financial statements. The general purpose of financial reporting is to provide financial information about the reporting entity that is useful to current and potential investors, lenders, and other creditors in making decisions about providing resources to the entity.

With the development of technology, all companies in the world compete to be able to expand and develop the business owned by the company. In order to survive in the increasingly fierce competition in the business world, one of the efforts to face the competition is to commit fraudulent practices by presenting irrelevant and inaccurate financial reports through material value engineering or what is often referred to as Financial Statement Fraud. (Agustina and Pratomo, 2019) stated that because financial statements are very important for companies, management can cover up the actual situation that occurs in the financial statements by committing fraud in the financial statements with the aim of looking at positive performance. Today, in the business world, all companies compete to develop their own company. In order to survive in the competitive world of business, one of the efforts to deal with this competition is to commit fraudulent practices by presenting irrelevant and inaccurate financial reports through material value engineering or what is often referred to as Financial Statement Fraud. (Agustina and Pratomo, 2019) stated that because financial statements are very important for companies, management can cover up the actual situation that occurs in the financial statements by committing fraud in the financial statements with the aim of looking at positive performance.

Fraud in companies can be caused by differences in interests between management as agents and shareholders as principals, as described in the agency theory. The agent, as the party contracted by the principal to manage the company, has more information about the company's internal conditions and prospects than the principal. This situation will lead to information asymmetry between the principal and the agent, making it easier for management to hide some information that is not known to shareholders, which encourages fraud. Fraudulent behaviour must be overcome so as not to cause harm to users, so it is important to pay attention to being detected and eliminated so that financial statements can be trusted by users. Fraud can occur in state-owned companies and private companies listed on the Indonesia Stock Exchange. Cases of fraud in companies to maintain their existence and gain profits because in the business world, there is a lot of competition with other business people, especially doing business in the same product, thus making management manipulate financial statements in order to benefit from their actions. The form of fraud that often occurs is beautifying the numbers or changing certain items presented in financial statement information that misleads users for decision making.

According to the results of a survey conducted by the Association of Certified Fraud Examiners Asia-Pacific (ACFE) in 2018, financial statement fraud was the least common case at 13 per cent compared to asset misappropriation and corruption, but financial statement fraud is one of the causes of fraud. The biggest loss was with an average loss of US\$ 700,000. According to SA section 316, financial statement fraud is the intentional misstatement or omission of amounts or disclosures in financial statements to deceive financial statement users. Financial statement fraud by companies varies, ranging from circumventing Financial Accounting Standards and carrying out aggressive earnings management to taking illegal actions, and it has an impact on company bankruptcy (Septriani and Handayani, 2018).

Financial statement fraud can also involve the manipulation of several accounts in the financial statements, namely by overestimating assets, income and profits as well as by understating liabilities, costs and losses (Zulaikha and Smith, 2017). One form of



manipulation of financial statements that is often carried out by management as a short-term solution is to practice earnings management with the aim of maintaining investor confidence in the company's performance (Septriani and Handayani, 2018).

Meanwhile, according to the results of the Indonesian Fraud Survey conducted in 2019, corruption was the highest fraud case in Indonesia at 64.400 per cent. Misappropriation of State and Company Assets or Wealth occupies the second position in fraud cases that occurred in Indonesia. Companies with a percentage of 28.900 per cent. And a fraud case that rarely occurs in Indonesia is Financial Report fraud, with a percentage of only 6.700 per cent. This is because corruption cases are often highlighted by the media, so people consider corruption scandals to be the most common fraud cases in Indonesia. However, if viewed in terms of the magnitude of losses due to fraud, Financial Statement fraud occupies the first position with a percentage of 67.400 per cent with a loss value of below ten million rupiah and a percentage of 5.000 per cent with a loss value of more than ten million rupiah. In 2020, August 2020, to be exact, the Association of Certified Fraud Examiners Global released a biennial report which stated that Indonesia was the largest contributor to fraud cases in Southeast Asia with a total of 36 cases and beat China, which only had 33 cases.

Similar to Indonesia, Malaysia has also experienced several cases of financial fraud in recent years. Quoted from cnbcindonesia.com on January 30, 2019, Malaysian securities regulators have fined Deloitte, which is a multinational services company that houses tens of thousands of independent company professionals around the world, for collaborating to provide audit and assurance services, consulting, financial advisory, risk advisory, tax, and related services. Deloitte was fined for having committed four violations at once related to a Sukuk program worth RM 2.400 billion or equivalent to 8.200 trillion rupiahs issued by a company linked to the 1Malaysia Development Berhad (1MDB) institution. 1Malaysia Development Berhad is Malaysia's sovereign wealth fund, which is currently under intense scrutiny due to a multibillion-dollar corruption scandal.

From the results of the gap phenomenon described, it can be seen that this research was conducted by comparing manufacturing companies in the two countries. Is there a difference in the role of the Crowe pentagon theory between Indonesia and Malaysia? Research like this has not been carried out much because usually previous research has only focused on one country because of the different practices and regulations in each country.

This study uses the fraud pentagon theory, which is the development of the fraud triangle and the fraud diamond proposed. Fraud Pentagon is expected to be able to detect fraudulent financial statements more deeply because there is a component of arrogance that was not previously found in research using the fraud triangle and fraud diamond. The dependent variable in this study is financial statement fraud which is proxied by earnings management using a modified Jones model as research conducted by Siddiq et al. (2017) and analyzed through Crowe's fraud pentagon theory. The sample in this study is a manufacturing company where Manufacturing companies have unlimited liability means that wealth. The personal owner of the company can also be used as collateral for all company debts. Therefore, manufacturing companies have risks related to company liabilities because funding comes from outside the company, so the opportunity for financial statement fraud is very high big.



THEORETICAL REVIEW

Agency Theory. Agency theory states that if one party or principal, such as the owner of the company and shareholders (shareholders), represent their authority in making decisions or doing work to other parties (agents), such as management, it is called an agency relationship. The purpose of this agency theory is that there is a cooperative relationship between principals, such as shareholders, who have the desire and access to obtain information that is related to the company where they invest. And management, as an agent and a real actor in operational activities carried out by the company, must know thoroughly about information related to operational activities to company performance. Obtaining high profits on investment activities in a company is the main goal of the principal. The principal has a goal to always get a high return on the investment issued for the company. Meanwhile, the agent has its own goal to get compensation or satisfactory results for its performance. This shows that there is a conflict of interest or conflict of interest between the principal and the agent. As a result of the conflict of interest, it fosters an attitude of mutual distrust because the agent acts for his personal interests so that it is not in accordance with the interests required by the principal. The existence of these conflicts will provoke the emergence of fraud. Agency theory is a business reference and is the basic foundation of the company. The theory provides an overview of the correlation or relationship between the principal and the agent (management) on the nexus of a contract or cooperation agreement.

In a study conducted by (Aprilia, 2017), Eisenhardt classified three types of basic human traits that are: cause fraud, namely, basically humans are concerned with their personal (self-interest), limited human thinking power about the view of the future (bounded rationality), and tends to avoid the risk which is known as risk averse. Self-interest is related to factors of pressure, ability, and arrogance related to self-interest or self-interest. Opportunity and rationalization relate to avoiding risk or being risk averse. (Bawekes et al., 2018) explained that the ACFE defines report fraud as a deliberate misrepresentation of the company's financial condition because of miscalculated or negligent amounts in disclosing financial statements for the purpose of deceiving stakeholders. Falsification, manipulation, and alteration of accounting records and data misrepresented support and intentionally omit important information and transactions of financial statements are included in the fraudulent activities of financial statements.

Crowe's Fraud Pentagon Theory. The number of cases of fraudulent financial statements that occur is one of the responsibilities of an auditor in detecting the existence of fraud so that the company's financial statements can be trusted and the company remains good for users of financial statements. One of the ways to detect fraud, the auditor can use various theories about fraud that have been developed by various researchers previously. This study applies the fraud pentagon as a basis for researching its effect on fraud financial statements because the theory is a development of the fraud triangle and fraud diamond. Pentagon Fraud expected to be able to detect fraudulent financial statements more deeply because there is a component of arrogance that was not previously found in research that uses the fraud triangle and fraud diamond. The Pentagon fraud is an updated theory about the fraud trigger factors to expand the fraud triangle and fraud diamond. Crowe Howarth put forward the theory of the fraud pentagon in 2011 by adding an element of arrogance from the development of the fraud triangle and fraud diamond. Thus, the elements that trigger someone to commit fraud in terms of the fraud pentagon are pressure, opportunity,



rationalization, capability, and arrogance. Howarth, in (Pratiwi and Nurbaiti, 2018), states that the nature of power over authority and considering the company's internal policies and controls do not apply to him is called arrogance.

Fraudulent Financial Reporting. Fraud is an act that is carried out intentionally and consciously and misuses everything that is shared, for example, company and state resources, for personal enjoyment and then presents false information to cover up the abuse. Fraud is different from unintentional error or unintentional error. If someone accidentally enters wrong data when recording a transaction, then it cannot be said to be fraud because it was done accidentally. But if someone, with his ingenuity, manipulates financial statements to attract potential investors to invest in his company, it is called fraud. Fraud in financial statements is intentional or negligent in financial reporting where the financial statements presented are not in accordance with applicable accounting standards. The negligence or intentional nature is material, so it can affect the decisions that will be taken by interested parties. Financial Statement Fraud is an intentional mistake aimed at deceiving the users of the financial statements and is ultimately detrimental to the users of the financial statements themselves. According to the Association of Certified Fraud Examiners (ACFE), fraud is an unlawful act that is carried out intentionally for a specific purpose, such as manipulation or giving false reports to other parties. These activities can be carried out by individuals from within or outside the company. The aim is to gain personal or group benefits that harm other parties, either directly or indirectly.

There are several modes of fraud that are usually found in financial statements, including falsification, alteration or manipulation of financial records, supporting documents or business transactions, and intentional omission of events, transactions, accounts or other significant information. In addition, fraud can be carried out by the application of accounting principles, policies and procedures that are wrong and carried out intentionally and the intentional omission of information that should be presented and disclosed in the financial statements. Asia-Pacific Association of Certified Fraud Examiners (ACFE) survey in 2018 shows that financial statement fraud is the fewest cases, which was 13 per cent compared to misappropriation of assets and corruption, but fraudulent financial statements are One of the biggest causes of loss is with on average loss of US\$ 700,000. According to SA section 316, fraudulent financial statements are wrong intentional misstatements or omissions of amounts or disclosures in the report financial statements to deceive users of financial statements. Report fraud in the financial services carried out by the company varies, ranging from outsmarting the Standard Financial Accounting, and carrying out aggressive earnings management to committing illegal acts, resulting in bankruptcy company (Septriani and Handayani, 2018).

The Effect of Pressure on Fraudulent Financial Reporting. Financial stability is a stable financial condition in a company. Financial stability is influenced by the state of a country's economy. If the economic condition is unstable, it will affect the financial stability of the company. Of course, things like this will put pressure on the management of the company. And management will justify all kinds of ways to display financial statements that seem good. The company's finances can be said to be stable by measuring growth through the sale of the company, the value of the company's profit per year and the growth of company assets. (Putriasih, 2016) states that financial stability, industrial conditions, and external pressures affect fraud reports in finance. It shows that conditions of less financial stability stable in the presence of external stress conditions will have an impact on doing so financial statement fraud due management is required to comply target in a financial



condition that is not stable and under pressure condition by para stakeholders. Company's financial stability when experiencing a threat to the state of the economy, the operating entity, and the industry, managers will face pressure to encourage companies to commit fraudulent financial statements (Siddiq et al., 2017). The other researchers conducted a study using Return On Asset growth and Sales growth proxies. High growth can be categorized as a factor in the emergence of Fraudulent Financial Reporting. (Aprilia, 2017) states that external pressure will cause management to seek loans from other parties so that the company can compete competitively. This pressure will be a trigger for the management to manipulate financial statements. Based on this explanation, the hypothesis can be formulated, namely:

H₁: Pressure affects Fraudulent Financial Reporting.

The Effect of Opportunity on Fraudulent Financial Reporting. Independent supervision is usually carried out by placing a number of independent commissioners within the company. Independent commissioners are commissioners who come from outside the company or are not affiliated with the company's shareholders. The nature of the industry is the ideal conditions that companies have in industrial activities. The company can be said to be ideal if it generates a profit. The advantages can attract investors to invest their capital in the company. This can make the management commit fraudulent actions in the financial statements so that the company looks good and ideal (Agusputri and Sofie, 2019). If a company is able to reduce or have a small total receivable and the company is able to increase the cash it has, the company is categorized as good (Sasongko and Wijyantika, 2019). The amount of the balance in special accounts, such as the obsolete inventory account and the bad debt account in the financial statements, can be determined by the company based on estimates. The more boards of commissioners in a company, the more effective the supervision will be (Aprilia, 2017). Previous research shows that the effectiveness of supervision has a significant effect on financial statement fraud. (Aprilia, 2017), in his research, states that the change of the head of the internal auditor should follow the regulations that apply in the company. If the change of the head of the internal auditor does not follow the existing regulations, then the company is considered ineffective. Too often the change of the head of the internal auditor will affect the internal audit that will be carried out by the Internal Control System. Based on this explanation, the hypothesis can be formulated, namely:

H₂: Opportunity affects Fraudulent Financial Reporting.

The Effect of Arrogance on Fraudulent Financial Reporting. (Aprilia, 2017) conducted a study to measure arrogance by assessing the existence of a CEO who has multiple positions both inside and outside the company. Good company performance should not have anything to do with dual positions of directors. The existence of this dual position allows negative effects. For example, some of these dual positions encourage someone to collude and even sacrifice the interests of shareholders. In addition, members of the board of directors may be disrupted in their performance because they are too busy and unfocused. The element of arrogance is the ego of a CEO because they are seen as the most important and powerful person. Research by (Apriliana, 2017) is reinforced by the (Tessa, 2019) finding that The emergence of CEO photos has an effect on fraudulent financial statements.



More and more CEO photos depict the degree of arrogance which can lead to possible fraud.

What is meant by the Frequent number of CEO pictures is the number of CEO photos that are displayed in the company's annual report. The number of CEO photos plastered on an annual company report can represent the level of arrogance or superiority of the CEO. CEOs tend to be more willing to show everyone about the status and position that they have in the company because they do not want to lose that status or position (or feel unappreciated). This corresponds to the wrong element. A high level of arrogance can lead to the occurrence of fraud due to the arrogance and superiority of the CEO, making the CEO feel that any internal control won't apply to him because of his status and position held. According to (Aprilia, 2017), there is also the possibility that the CEO will do whatever it takes to defend their current position. The results of this analysis are in line with research conducted by (Tessa, 2017) showed that the Frequent Number Of CEO Picture is influential to Fraudulent Financial Reporting.

The above statement is supported, which shows that fraud related to earnings manipulation is dominated by management, and multiple positions are carried out by the CEO. Based on this explanation, the hypothesis can be formulated, namely:

H₃: Arrogance affects Fraudulent Financial Reporting.

The Effect of Rationalization on Fraudulent Financial Reporting. The rationalization factor from management can appear in every restated incident. (Septriani et al., 2018) stated in their research that the frequent presentation of historical finances can reflect the weaknesses of top management and can be considered as management attitudes or habits. (Septriani et al., 2018) resulted that the High Historical Financial Statements Times have a significant effect on Fraudulent Financial Reporting. So that the hypothesis can be formulated, the change in accounting policies within a company will lead to a rationalization for management to commit fraudulent financial statements. Perpetrators usually look for various rational reasons to justify the actions taken (Septriani et al., 2018). Rationalization in the theory of fraud pentagon is very difficult to measure because rationalization is in the individual who is intangible. Fraud is more likely to change auditors. This is to hide the fraud from being detected. Rationalization can be measured using a proxy for turnover or changes in public accounting firms.

Based on this explanation, the hypothesis can be formulated, namely:

H₄: Rationalization affects Fraudulent Financial Reporting.

The Effect of Competence or Capability on Fraudulent Financial Reporting. Capability or ability, according to the Big Indonesian Dictionary, is ability, proficiency, and strength. Capability is the ability, ability, or power of management to control and commit fraud internally. Capability is a person's ability or power to achieve his goals. In this study, the capability is proxied by the change of directors. According to (Sasongko and Wijayantika, 2019), A change of directors can also indicate a certain political interest in replacing the previous board of directors.

Meanwhile, the change of directors is considered to be less effective in management performance because it takes time to adapt to the company culture. Change of Directors can be an effort for manufacturing companies to improve the performance of the previous



directors by changing the composition of the board of directors or recruiting new directors who are considered more competent. Research conducted by (Ulfah et al., 2017) and (Siddiq et al., 2017) says that capability has a positive effect in detecting fraudulent financial reporting. Based on this explanation, the hypothesis can be formulated, namely:

H₅: Competence or Capability affects Fraudulent Financial Reporting.

METHODS

This study aims to determine the role of Crowe's Fraud Pentagon Theory on Fraudulent Financial Reporting between Manufacturing Companies on the Indonesia Stock Exchange and the Malaysia Stock Exchange from 2020 to 2021. The analytical technique used in this research is descriptive statistics and paired sample t-test using Eviews software version 9. The research approach used in this study is a quantitative research approach. According to (Sugiyono, 2019), quantitative research can be interpreted as a research method based on the philosophy of positivism, used to examine certain populations or samples. Sampling techniques are usually random. The research uses research instruments. Data analysis is quantitative/statistical with the aim of testing hypotheses. Has been established. The quantitative research used in this study aims to examine and analyze how the crowd's fraud pentagon theory approach can detect fraudulent financial reporting in manufacturing companies listed on the Indonesian and Malaysian stock exchanges.

The dependent variable in this study is fraudulent financial reporting as measured by using a restatement of financial statements (restatement). The independent variable is a variable that explains the dependent variable. In this study, independent variables were developed from 5 components of the fraud pentagon, namely pressure, opportunity, rationalization, capability, and arrogance. These five components cannot be studied directly, so a variable with certain proxies is needed to measure it. The indicators for measuring variables are as follows:

Table 1. Independent Variable Measurement Indicator

No	Variable	Indicator
1	Pressure	Earning after interest and tax / total assets
2	Opportunity	Inventory Change
3	Arrogance	Number of CEO Picture
4	Rationalization	change in auditor
5	Capability/Competence	<i>Change in director</i>

Sample Data, 2022

The independent variable is a variable that explains the dependent variable. In this study, independent variables were developed from 5 components of the fraud pentagon, namely pressure, opportunity, rationalization, capability, and arrogance. These five components cannot be examined directly, so a variable with certain proxies is needed to measure it. The first indicator is pressure. Pressure is a motivation for management to commit fraud on manufacturing companies on the Indonesia Stock Exchange and the Malaysian Stock Exchange during the 2020 to 2021 period. This pressure is measured by



the financial target, which is proxied by earnings after interest and tax divided by total assets.

The second indicator is opportunity. An opportunity is an opportunity for management to commit a crime or fraud. This opportunity is measured by the nature of the industry. The nature of the industry is the nature of the industry in the ideal state of a company in the industry (Sasongko, 2019). Nature of industry calculations referring to (Ayunsari', 2018) is the year's inventory divided by sales minus last year's inventory divided by last year's sales. The third indicator is arrogance. Arrogance, according to the Big Indonesian Dictionary, is arrogance or arrogance. (Siddiq et al., 2017) explain that arrogance is the nature of superiority over the rights owned and feels that internal control and company policies do not apply to him. Arrogance is proxied by the number of photos displayed in the annual report.

The fourth indicator is rationalization. According to the Big Indonesian Dictionary, rationalization is a process, method, or act that rationalizes. So rationalization is an attitude of justification for the thought of the fraudulent activity that has been carried out, thus making the perpetrator feel innocent for his actions. Rationalization is measured by the change in auditor (change in auditor). Changes in auditors in manufacturing companies can be seen as an effort to eliminate traces of fraud found by previous auditors in order to cover up fraud in the company. And the last indicator is capability. According to the Big Indonesian Dictionary, it is ability, proficiency, and strength. Capability in this study is proxied by the change of directors (Change in director). Change of Directors can be an effort for manufacturing companies to improve the performance of the previous directors by changing the composition of the board of directors or recruiting new directors who are considered more competent. Meanwhile, the dependent variable in this study is fraudulent financial reporting as measured by using a restatement of financial statements (restatement).

This study uses secondary data obtained from the databases of various official websites of each manufacturing company listed on the Indonesian stock exchange and the Malaysian stock exchange as the research sample. The object of the research is the annual report of manufacturing companies listed on the Indonesian stock exchange and the Malaysian stock exchange, which will be analyzed and processed using proxies according to the indicators of each variable. The research sample consists of 149 companies listed on the Indonesian stock exchange and 149 companies listed on the Malaysian stock exchange. The total sample used in this research is 298 companies.

RESULTS

Descriptive Statistic. The variables used in this study are the variables of pressure, opportunity, arrogance, rationalization, and competence. Descriptive statistics in this study are used to provide information about the variables in the study related to the mean and standard deviation.



Table 2. Mean and Standard deviation result

Variable	Stock Exchange	Mean	Standard Deviation
Pressure	Indonesian	0.062	0.554
	Malaysian	0.033	0.091
Opportunity	Indonesian	0.077	1.014
	Malaysian	0.016	0.107
Arrogance	Indonesian	1.628	1.171
	Malaysian	1.628	1.171
Razionalization	Indonesian	0.450	0.500
	Malaysian	0.091	0.288
Capability	Indonesian	0.490	0.501
	Malaysian	0.510	0.501

Data Eviews, 2022

Table 2 shows, it can be seen the average value (mean) and standard deviation of each variable for manufacturing companies from the Indonesia Stock Exchange and the Malaysia Stock Exchange. It is known that the average value for the pressure variable for manufacturing companies from the Indonesia Stock Exchange is 0.062, with a standard deviation of 0.554. It is known that the standard deviation is greater than the mean value, which means that there is a large difference between the maximum and minimum values. It is known that the average value for the pressure variable for manufacturing companies from Bursa Malaysia is 0.033, with a standard deviation of 0.091. It is known that the standard deviation is greater than the mean value, which means that there is a large difference between the maximum and minimum values.

It is known that the average value for the opportunity variable for manufacturing companies from the Indonesia Stock Exchange is 0.077, with a standard deviation of 1.014. It is known that the standard deviation is greater than the mean value, which means that there is a large difference between the maximum and minimum values. It is known that the average value for the opportunity variable for manufacturing companies from Bursa Malaysia is 0.016, with a standard deviation of 0.107. It is known that the standard deviation is greater than the mean value, which means that there is a large difference between the maximum and minimum values. In the arrogance variable, the average value for manufacturing companies from the Indonesia Stock Exchange is 1.628, with a standard deviation of 1.171. It is known that the standard deviation is smaller than the mean value, which means that there is no big difference between the maximum and minimum values. It is known that the average value for the arrogance variable for manufacturing companies from Bursa Malaysia is 1.628, with a standard deviation of 1.171. It is known that the standard deviation is smaller than the mean value, which means that there is no big difference between the maximum and minimum values.

In the rationalization variable, the average value for manufacturing companies from the Indonesia Stock Exchange is 0.450, with a standard deviation of 0.500. It is known that the standard deviation is greater than the mean value, which means that there is a large difference between the maximum and minimum values. It is known that the average value for the rationalization variable for manufacturing companies from Bursa Malaysia is 0.091, with a standard deviation of 0.288. It is known that the standard deviation is greater than the mean value, which means that there is a large difference between the maximum and minimum values. While the competency variable, the average value for manufacturing companies from the Indonesia Stock Exchange is 0.490 with a standard deviation of 0.501,



which means that the standard deviation is greater than the average value, which means that there is a big difference between the maximum value and the minimum value. As for the competency variable at Bursa Malaysia, the average value is 0.510 with a standard deviation of 0.501, which means that the standard deviation is smaller than the average value, which means that there is no big difference between the maximum and minimum values.

Hypothesis test. The hypothesis test in this study uses a paired sample T-test to measure the comparison of the role of Crowe's Fraud Pentagon Theory on Fraudulent Financial Reporting between Manufacturing Companies on the Indonesia Stock Exchange and the Malaysia Stock Exchange from 2020 to 2021. The results of hypothesis testing can shows **Table 3**:

Table 3. Hypothesis Test Result

Hypothesis	Mean		T Count	Prob	Conclusion
	BEI	BM			
Pressure affects Fraudulent Financial Reporting.	0.062	0.033	0.892	0.373	The pressure of the company in Two Exchanges Is No Different
Opportunity affects Fraudulent Financial Reporting	0.077	0.016	1.030	0.303	The opportunity of the company in Two Exchanges Is No Different
Arrogance affects Fraudulent Financial Reporting	1.628	1.628	0.000	1.000	The arrogance of the company in Two Exchanges Is No Different.
Rationalization affects Fraudulent Financial Reporting.	0.450	0.091	11.643	0.000	Rationalization of the Company in the Two Exchanges is Different
Capability affects Fraudulent Financial Reporting.	0.490	0.510	-0.491	0.624	The capability of the company in Two Exchanges Is No Different

Data Eviews, 2022

Table 3 shows, it can be seen the average value (mean) and standard deviation of each variable for manufacturing companies from the Indonesia Stock Exchange and the Malaysia Stock Exchange. It is known that the average value for the pressure variable for manufacturing companies from the Indonesia Stock Exchange is 0.062 with a standard deviation of 0.554. It is known that the standard deviation is greater than the mean value, which means that there is a large difference between the maximum and minimum values. It is known that the average value for the pressure variable for manufacturing companies from Bursa Malaysia is 0.033, with a standard deviation of 0.091. It is known that the standard deviation is greater than the mean value, which means that there is a large difference between the maximum and minimum values.



It is known that the average value for the opportunity variable for manufacturing companies from the Indonesia Stock Exchange is 0.077, with a standard deviation of 1.014. It is known that the standard deviation is greater than the mean value, which means that there is a large difference between the maximum and minimum values. It is known that the average value for the opportunity variable for manufacturing companies from Bursa Malaysia is 0.016, with a standard deviation of 0.107. It is known that the standard deviation is greater than the mean value, which means that there is a large difference between the maximum and minimum values. In the arrogance variable, the average value for manufacturing companies from the Indonesia Stock Exchange is 1,628, with a standard deviation of 1.171. It is known that the standard deviation is smaller than the mean value, which means that there is no big difference between the maximum and minimum values. It is known that the average value for the arrogance variable for manufacturing companies from Bursa Malaysia is 1.628, with a standard deviation of 1.171. It is known that the standard deviation is smaller than the mean value, which means that there is no big difference between the maximum and minimum values.

In the rationalization variable, the average value for manufacturing companies from the Indonesia Stock Exchange is 0.450, with a standard deviation of 0.500. It is known that the standard deviation is greater than the mean value, which means that there is a large difference between the maximum and minimum values. It is known that the average value for the rationalization variable for manufacturing companies from Bursa Malaysia is 0.091, with a standard deviation of 0.288. It is known that the standard deviation is greater than the mean value, which means that there is a large difference between the maximum and minimum values. While the capability variable, the average value for manufacturing companies from the Indonesia Stock Exchange is 0.490 with a standard deviation of 0.501, which means that the standard deviation is greater than the average value, which means that there is a big difference between the maximum value and the minimum value. As for the capability variable in Bursa Malaysia, the average value is 0.510 with a standard deviation of 0.501, which means that the standard deviation is smaller than the average value, which means that there is no big difference between the maximum and minimum values.

Comparison of Pressure Variables for Manufacturing Companies in Indonesia Stock Exchange and Malaysia Stock Exchange. The results of the analysis of the pressure variable comparing the manufacturing companies listed on the Indonesia Stock Exchange with the Malaysia Stock Exchange obtained a significance value of 0.373. This indicates that the value of 0.373 is greater than the significance value of 0.050 or 5 per cent, which means the first hypothesis is rejected. This indicates that there is no significant difference between the pressure between manufacturing companies listed on the Indonesia Stock Exchange and the Malaysia Stock Exchange. This also shows that there is no significant effect on the difference in treatment given to each variable.

Comparison of Opportunity Variables for Manufacturing Companies in Indonesia Stock Exchange and Malaysia Stock Exchange. The results of the analysis of opportunity variables that compare manufacturing companies listed on the Indonesia Stock Exchange and the Malaysia Stock Exchange obtained a significance/probability value of 0.303. This indicates that the value of 0.303 is greater than the significance value of 0.050 or 5 per cent, which means that the second hypothesis is rejected. This means that there is no significant difference in the opportunity variable between manufacturing companies listed on the Indonesia Stock Exchange and the Malaysia Stock Exchange. This also shows that there is no significant effect on the difference in treatment given to each variable.



Comparison of Arrogance Variables for Manufacturing Companies in Indonesia Stock Exchange and Malaysia Stock Exchange. The results of the analysis of the arrogance variable comparing the manufacturing companies listed on the Indonesia Stock Exchange with the Malaysia Stock Exchange obtained a significance/probability value of 1.000. This indicates that the value of 1.000 is greater than the significance value of 0.050 or 5 per cent, which means that the third hypothesis is rejected. This means that there is no significant difference in the arrogance variable between manufacturing companies listed on the Indonesia Stock Exchange and the Malaysia Stock Exchange. This also shows that there is no significant effect on the difference in treatment given to each variable.

Comparison of Arrogance Variables for Manufacturing Companies in Indonesia Stock Exchange and Malaysia Stock Exchange. The results of the analysis of rationalization variables comparing manufacturing companies listed on the Indonesia Stock Exchange with the Malaysia Stock Exchange obtained a significance/probability value of 0.000. This indicates that the value of 0.000 is smaller than the significance value of 0.050 or 5 per cent, which means that the fourth hypothesis is accepted. This means that there is a significant difference in the rationalization variable between manufacturing companies listed on the Indonesia Stock Exchange and the Malaysia Stock Exchange. This also shows that there is a significant effect on the difference in treatment given to each variable.

Comparison of Capability Variables of Manufacturing Companies in Indonesia Stock Exchange and Malaysia Stock Exchange. The results of the analysis of competency variables comparing manufacturing companies listed on the Indonesia Stock Exchange and the Malaysia Stock Exchange obtained a significance/probability value of 0.624. This indicates that the value of 0.624 is greater than the significance value of 0.050 or 5 per cent, which means that the fifth hypothesis is rejected. This means that there is no significant difference in the competency variable between manufacturing companies listed on the Indonesia Stock Exchange and the Malaysia Stock Exchange. This also shows that there is no significant effect on the difference in treatment given to each variable.

DISCUSSION

The Relationship of Pressure and Fraudulent Financial Reporting. Based on the results of statistical analysis in **Table 3** shows, it has been explained that there is no difference in the effect of pressure on manufacturing companies listed on the Indonesia Stock Exchange and the Malaysia Stock Exchange. It can be concluded that the first hypothesis, which states that pressure has an effect on fraudulent financial reporting, is rejected. This indicates that the pressure variable is not able to influence the company to commit fraudulent financial reporting. Based on agency theory, the agency relationship is a contract agreement between one or more people giving orders to another person as an agent to perform a service on behalf of the principal and authorizing the agent to make the best decision for the principal. Therefore, the results of this study are not in line with agency theory, where both parties, the agent and the principal, state that the pressure is not strong enough to make management commit fraudulent financial reporting for the benefit of the principal. The results of this study indicate that excessive pressure on management to meet the needs of shareholders does not necessarily make management commit fraudulent practices that can result in acts violating the applicable rules.

In fraud pentagon theory, one which causes fraud in financial statements is because there is pressure that can be proxied by financial stability due to conditions. Stable company



finances, of course, make shareholders feel safe and trust management; otherwise, the condition of the company is not stable will cause pressure on management due to a decline in company performance and hinder the flow of investment funds in the coming year. The results of this study are in line with research conducted by (Ratnasari and Badingatus, 2019), which said that external party pressure had no effect on fraudulent financial reporting. These results are consistent with research conducted by (Rahmawati et al., 2017) stated financial stability, industrial conditions and external pressures do not affect a fraud report's finance. However, in contrast to this study, the results of (Faradiza's, 2018) state that pressure affects financial reporting fraud. In addition, the results of this study do not support the results of research conducted by (Vivianita and Indudewi, 2018), which also states that pressure has a positive effect on fraudulent financial reporting.

The Relationship of Opportunity and Fraudulent Financial Reporting. Based on the results of statistical analysis in shows **Table 3**, it has been explained that there is no difference in the effect of opportunity on manufacturing companies listed on the Indonesia Stock Exchange and the Malaysia Stock Exchange. It can be concluded that the second hypothesis, which mentions the opportunity to influence fraudulent financial reporting, is rejected. This indicates that the opportunity variable is not able to influence the company or management to commit fraudulent financial reporting. Based on agency theory, the agency relationship is a contract agreement between one or more people giving orders to another person as an agent to perform a service on behalf of the principal and authorizing the agent to make the best decision for the principal. Therefore, the results of this study are not in line with agency theory, where both parties, the agent and the principal, state that the opportunities possessed by management are not strong enough to make management commit fraudulent financial reporting actions for the benefit of the principal.

Opportunities in this study are proxied by the Nature of the Industry, which indicates that the ideal condition of the company is the condition of receivables or the value of the company's merchandise inventory. If the condition of the company's receivables increases from the previous year, this indicates that the company's condition is not good (Ritonga and Apriyani, 2019). Several motivating factors management commits fraud, according to the theory of the fraud triangle, is because of the opportunity to commit fraud. One that is considered in the management presentation of financial statements is looking at industry conditions. If the company shows the condition of the industry is bad, then the management will make industrial conditions a chance or chance in committing fraudulent financial reporting, for example, in the form of manipulation of numbers of accounts receivable either by manipulating due date, to Eliminate long debts billing period. The majority of companies experienced an increase in receivables that did not become too significant between the current period and before or only happened a little bit increase, so it has no effect against fraudulent financial reporting.

The results of this study are not in line with the results of research conducted by (Himawan and Restu, 2020), which states that the nature of the industry has a positive effect on the risk of financial statement fraud. Furthermore, research conducted by (Pasaribu and Kharisma, 2018) and (Pamungkas et al., 2018) also said that the nature of the industry had a positive effect on the risk of financial statement fraud. However, this study is in line with research conducted by (Rahmayuni, 2018) and (Ijudien, 2018) which state that the nature of the industry has no effect on financial statement fraud.

The Relationship of Arrogance and Fraudulent Financial Reporting. According to (Crowe, 2011), arrogance is the nature of superiority over the rights owned, and he feels



that internal control and company policies do not apply to him. Arrogance in this study is proxied by the number of photos posted in the annual report. Based on the results of statistical analysis in **Table 3** shows, it has been explained that there is no difference in the effect of arrogance on manufacturing companies listed on the Indonesia Stock Exchange and the Malaysia Stock Exchange. It can be concluded that the third hypothesis, which states that arrogance has an effect on fraudulent financial reporting, is rejected. This indicates that the arrogance variable, which is proxied by the number of photos displayed in the company's annual report, is not able to influence the company or management to commit fraudulent financial reporting. This indicates that the CEO photo in the financial statements aims to introduce to stakeholders or users of financial statements who the CEO is in the company, not as a level of company arrogance. In addition, the purpose of the CEO photo in the financial statements is to show the activities and achievements of the company, which proves that the CEO took part in the company's activities. Thus, users of financial statements and the general public can assess the responsibility and tenacity of the CEO in leading the company.

The level of superiority and arrogance of the CEO can be seen through the many photos of the CEO that appear in a financial report because CEOs generally prefer to show the public their position and status in a company because they do not want to lose it. The results of this study indicate that a high level of arrogance is less capable of causing fraud, even though the CEO's arrogance can make him use any means to maintain his position and status. The results of this study are not in line with research conducted by (Siddiq et al., 2017), which obtained the results of the study that the Frequent Number of CEOs had an effect on the occurrence of financial statement fraud. However, the results of this study are in line with research conducted by (Yanti and Munari, 2021), which states that the CEO picture has no significant effect on the occurrence of financial statement fraud.

The Relationship of Rationalization and Fraudulent Financial Reporting. Based on the results of statistical analysis in **Table 3**, it has been explained that there are differences in the effect of rationalization on manufacturing companies listed on the Indonesia Stock Exchange and the Malaysia Stock Exchange. It can be concluded that the fourth hypothesis, which mentions rationalization, has an effect on fraudulent financial reporting received. This indicates that the rationalization variable is able to influence companies to commit fraudulent financial reporting. This difference indicates that the rationalization of companies listed on the Indonesia Stock Exchange and the Malaysia Stock Exchange both have an influence on fraudulent financial statements. The rationalization proxied by the change in auditors is expressed as auditor changes in manufacturing companies, which can be assessed as an effort to eliminate traces of fraud found by previous auditors in order to cover up fraud in the company. Rationalization is a justification for the attitude of fraud that has been carried out by the company's management. In this case, the company (management) believes that the actions taken are not a form of fraud but something that is already their right because management feels that they have contributed and done a lot for the organization. Change in auditors in a company is a form of effort to eliminate the fraud trial that was detected by the previous auditor.

The results of this study support the results of research conducted by previous researchers, such as (Yanti and Munari, 2021), which state that change in auditors has an effect on detecting fraudulent financial reporting. However, the results of this study do not support the results of research conducted by (Indarto and Ghazali, 2016) and (Faradiza, 2018), which state that auditor changes do not show an impact on fraud in financial



statements. This is because the auditor turnover carried out by the company is only to comply with government regulations regarding auditor rotation in each company. Compliance with this regulation is fulfilled by the company, not by committing fraud.

The Relationship of Capability and Fraudulent Financial Reporting. Based on the results of statistical analysis in **Table 3**, it has been explained that there is no difference in the effect of rationalization on manufacturing companies listed on the Indonesia Stock Exchange and the Malaysia Stock Exchange. It can be concluded that the fifth hypothesis, which mentions capability or competence has an effect on fraudulent financial reporting received. This indicates that the competency variable is not able to influence the company to commit fraudulent financial reporting. Capability or competence in this study is proxied by the change in directors, which can be an effort for manufacturing companies to improve the performance of previous directors by changing the composition of the board of directors or recruiting new directors who are considered more competent. Based on the results of the study, it can be concluded that the change of directors or the addition of new directors cannot make the company's management commit fraudulent financial reporting. The lack of effective supervision in the company causes the emergence of the potential occurrence of fraud. Lack of effective supervision will make management feel freedom and freedom in promoting personal gain and welfare. In addition, the change in auditors will cover up fraud that occurs in the company's financial statements due to lack of supervision.

This is not in line with agency theory, where management will consider the wishes of shareholders in committing fraudulent financial reporting. The results of this study are in line with (Tessa and Harto, 2016), who state that a change in director has no effect on fraud. However, this is not in line with the research conducted by (Faradiza, 2018), which states that a change in director has an effect on fraudulent financial reporting. In addition, the results of this study are not in line with the research results of (Elviani et al., 2020) and are in line with the research of (Bayagub et al., 2018). With a change in the board of directors, it can lead to a transfer of responsibility to the new board of directors and keep the previous board of directors' fraud a secret if not done

CONCLUSION

This study aims to compare the effect of the crowd's fraud pentagon, which has five indicators on fraudulent financial reporting in manufacturing companies listed on the Indonesia Stock Exchange and the Malaysia Stock Exchange. The sample of this research is manufacturing companies listed on the Indonesian Stock Exchange and Bursa Malaysia with a total of 298 companies with an observation period of 2 years (2020-2021), so the number of observation data is 596. The results show that the variables of pressure, opportunity, arrogance, and capability have no effect on fraudulent financial reporting. From the paired sample t-test, it was found that there was no difference in the effect between manufacturing companies listed on the Indonesian Stock Exchange and Malaysian Stock Exchange.

While the rationalization variable has an effect on fraudulent financial reporting, this means the rationalization is a justification for the attitude of fraud that has been carried out by the company's management. In this case, the company (management) believes that the actions taken are not a form of fraud but something that is already their right because management feels that they have contributed and done a lot for the organization. From the results of the paired sample t-test, it was found that there was no difference in the effect



between manufacturing companies listed on the Indonesian Stock Exchange and Malaysian Stock Exchange. For further research, it is expected to add other variables that can affect fraudulent financial reporting and expand the object and sample of the research.

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