

Detect Fraud Financial Statements with Theory Fraud Diamond During the Covid-19 Pandemic

Yudi Herlambang
Accounting, STIE Indonesia Membangun

Correspondence: yudiher1970@gmail.com

ABSTRACT

The impact of the Covid-19 pandemic shook the world economy, especially Indonesia. BPS data Compared to January 2019, there was a decline in imports of capital goods and raw materials, or year on year (yoy) basis, which affected the performance of the manufacturing industry. This research aims to detect indications of financial statement fraud in companies affected by the Covid-19 pandemic, especially manufacturing, with proxies for financial stability, nature of industry, change in auditors and change of directors. Descriptive and verification research methods with multiple linear regression analysis were processed using the EViews-12 application, an optional source of information about manufacturing organizations listed on the Indonesia Stock Exchange in 2020, a total population of 191 companies using a purposive sampling technique so that the total sample is 84 companies. The results of research on the condition of financial stability, nature of industry, change in auditors, change of directors and financial statement fraud under normal conditions. Simultaneously all the independent variables have a significant effect with the direction of a positive relationship to financial statement fraud. Partially, financial stability and nature of industry have a significant effect in the direction of a negative relationship, then change in auditors has a significant effect on a positive relationship, then change of directors has no effect on a negative relationship, all of this on financial statement fraud.

Keywords: financial statement fraud, fraud diamond theory, Covid-19

INTRODUCTION

financial statements good and healthy will attract investors or other users of financial statements to invest in the company. Therefore, the information in the financial statements should comply with existing company information requirements and reflect all accounting procedures. In Indonesia, the components of financial statements are becoming more comprehensive. However, there are still businesses that are unable to submit financial reports that meet the requirements. Fraud perpetrated by management and some individuals for personal or group gain is one of the factors.

There are three general circumstances for breach of trust cases. First, the potential

embezzler feels he cannot tell anyone about his financial problems. Second, he sees the breach of trust as an opportunity to deal with his financial problems. Third, before the commission, he rationalizes the act to himself alone (1).

The Survey of the Association of Certified Fraud Examiners on page 34 states that there are 18 indicators that are used as benchmarks for control in security or anti-fraud in organizations, the results of the survey state that the External audit of financial statements ranks first. This means that external audit is one way to prevent financial statement fraud. The number of financial statement fraud problems that occur inside or outside the country is an indication of the auditor's failure to detect the formation of fraud. The

perpetrators of fraud do not always use one method in carrying out their mode. > 40% of fraud perpetrators are involved in more than one category of fraud. 32% of fraud perpetrators carry out Asset misappropriation schemes and Corruption schemes as part of their crimes (2). Furthermore, it shows that there were 194 cases of fraud in the manufacturing industry sector, which is one of the categories for the number of middle cases, for financial statement fraud cases, only 12%. Not many cases of financial statement fraud in the manufacturing industry have been disclosed. This may be due to the fact that crimes related to financial statement fraud, such as stock exchange information fraud and tax information fraud, have not been widely reported in Indonesia.

Institute for Economic and Community Research, Faculty of Economics and Business Institute, University of Indonesia (LPEM FEB UI) regarding the Impact of the Covid-19 Pandemic on the Impact of the Corona virus outbreak rocked the world economy, especially Indonesia. Indonesia's economic growth was 2.97% at the start of the spread of Covid-19 in the first quarter of 2020. This figure is far more accurate when compared to the same quarter in 2019 when it was 5.02%, even though in the second quarter of 2020 it was minus 5.32% percent and in the third quarter minus 3.49%. (year over year/yoy) (3). In 2020, the Ministry of Finance anticipates an economic growth rate of only 5.02%. between minus 1.7% to 0.6%. The manufacturing sector in Indonesia will

also be affected by this decline in the national economic growth rate. The Manufacturing PMI (Purchasing Managers' Index) for the manufacturing sector fell from 51.9 in February 2020 to 45.3 in March 2020, indicating the start of a significant decline in the performance of the national manufacturing industry until the lowest point was 27.5 in April 2020. A reading lower than 50 indicates a decline in manufacturing activity). Industry conditions in 2020 are critical, and management must present strong financial reports. Cases of fraudulent financial statements are very likely to occur.

The theory of detecting fraud has developed with the fraud diamond theory, namely pressure, opportunity, and rationalization and capability (4). Statement of Auditing Standards regarding auditing, there are four pressure factors that can have an impact on fraudulent financial statements. The proxies for these pressures are financial stability, external pressure, personal financial need, and financial targets. The two opportunities that are possible in fraudulent financial reporting into three proxies are the nature of industry, ineffective monitoring, and organizational structure. Rationalization and capability are parts that are not easy to measure.

This study uses a proxy that is used. Pressure is measured by financial stability, Opportunity is measured by the nature of industry, Rationalization is measured by change in auditors, Capability is measured by change of directors.

This research was conducted because there were differences in the results of previous researchers, namely: Financial statement fraud has a positive relationship with this being significantly influenced by the results of simultaneous testing of all independent variables (5), then Financial stability significantly reduces the possibility of fraudulent financial reporting. (6), then there is a significant positive relationship between the opportunity variable (Nature of industry) and the financial statement fraud variable (7), then Financial fraud affected by a change of auditors(8), then financial statement fraud reduced significantly and positively when the directors' or abilities' were changed (9). The difference between this study and previous research is that fraudulent financial statements are not positively and significantly affected by financial stability (10), then not affected by fraudulent financial statements by the nature of industry (11), then auditor change, has no significant effect on financial statement fraud (12), Furthermore, fraudulent

financial statements are not affected by the replacement of directors (13).

This study formulates how the condition of financial stability (FS), nature of industry (NOI), Change in auditor (CIA), change of director (CID) and financial statement fraud (FSF), then to determine the simultaneous and partial effects of financial stability (FS), nature of industry (NOI), Change in auditor (CIA), change of director (CID) against financial statement fraud (FSF) in companies listed on the Indonesia Stock Exchange, especially the manufacturing sector during the 2020 Covid-19 pandemic.

The research hypothesis:

- H1 : There is a simultaneous effectFS, NOI, CIA, COD against FSF.
- H2 : There is an intermediate effectFS against FSF.
- H3 : There is an influence between NOI against the FSF.
- H4 : There is influence between the CIA against the FSF.
- H5 : There is a partial intermediate effectCOD to FSF.

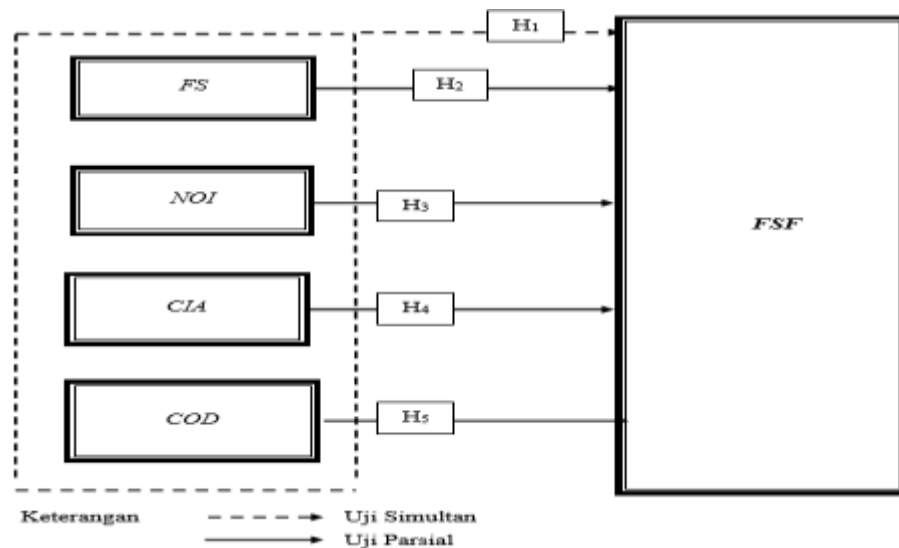


Figure 1 : Research Paradigm

METHOD

Descriptive method in this research approach. Information on financial reports listed on the Indonesia Stock Exchange, especially the manufacturing sector, serves as secondary data which is used as the basis for data processing in this study. This secondary data researchers get through website access <https://www.idx.co.id/id>. population of 191 corporate organizations. Indonesian manufacturing sector companies that have

gone factory on the Indonesia Stock Exchange (IDX) are grouped into 3 sectors and 20 sub-sectors. purposive sampling is a sampling method, there are 84 samples of company financial report data.

RESULTS AND DISCUSSION

Panel data analyzed in this study with the help of the Eviews-12 program. The results of the Chow test and Hausman test yielded a fixed effect model as the correct model for the regression model in this study.

Table 1: Research Results

Variables	Coefficient	probability
financial stability	-7.152149	0.0000
Nature of industry	-22.11700	0.0000
Change in auditors	23.35147	0.0000
Change of director	-0.467624	0.2490
F-statistics	30102.71	0.00000
R-squared	0.699344	30.0656

Source: Eviews-12 data processing

a. The nature of industry coefficient value is -22.11700 and the probability value is 0.0000. It means smaller than 0.05.

b. The value of the coefficient change in auditors is 23.35147 and a probability

value of 0.0000. It means smaller than 0.05.

- c. The coefficient change in director value is -0.467624 and the probability value is 0.2490. This means that it is greater than 0.05.

1. Determination Coefficient Test (R^2)

The test results obtained the magnitude of the coefficient of determination or R-squared was 0.799344 or 79.9344% while the remaining 20.07% had other variables that influenced and were not thorough in this study.

Discussion

The results of this research analysis describe that there is 1 observation data with a financial statement fraud value of -6.38, meaning that on average the company has no indication of committing financial statement fraud. The financial stability result of -0.04 means that the average change in total assets of manufacturing companies in 2020 is 4% lower than the previous year. The nature of industry results are 0.50, meaning that on average there is an increase in trade receivables of 50% from the previous year. The change in auditor results are 0.15, meaning that on average they do not replace external auditors. The result of change of directors is 0.11, meaning that on average there is no replacement of directors.

CONCLUSION

Condition financial stability, nature of industry, change in auditors, change of

directors and financial statement fraud during the Covid-19 pandemic in 2020 on average under normal conditions. Partially, financial stability and nature of industry have a significant effect on the direction of a negative relationship, then change in auditors have a significant effect on a positive relationship, then change of director has no effect, all of this towards financial statement fraud during the Covid-19 pandemic in 2020.

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