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Analysis of *Pentagon Fraud Model* To detect *Financial Statement Fraud* (Study on the Industrial ClassificationFinance on the Indonesia Stock Exchange)

Shinta gem sari [a, 1,] Alif Akbar Subkhi [b, 2]

[A] University of Muhammadiyah Surakarta, Surakarta, Indonesia
[B] Universitas of Muhammadiyah Surakarta, Surakarta, Indonesia
[1]Shinta.sari@ums.ac.id*;[2] alifakbarsubkhi@gmail.com;
*Corresponding Author

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ABSTRACT

Fraudulent Practices A is a problem that must be detected at the Earliest time, as an Effort to Protect Company'S assets and maintain the trust of stakeholders. In Financial Service Companies, Especial Banking Companies, Fraud is Susceptible to Occur. The Company's Needs An Approach to Detect Fraud, Especially Financial Statement Fraud. The Pentagon Fraud Model is an approach to detect financial statement fraud. Pentagon Fraud Consists of Four Elements: Pressure (Financial Targets, Financial Stability, External Pressure, and Institutional Ownership); Opportunity (Ineffective Monitoring and Quality of External Auditor); Rationality (auditor change); Capability (Change of Directors); AndroRegance (Director's Appearance). The Population of Thist Study is Companies in the Financial Industry Classification Listed on the Indonesian Stock Exchange by Determining The Sample Using Purposive Sampling Methods. THIS STUDY USING FOUR Years Period from 2016-2019 and Optains 29 companies Selected for Data Testing. Hypothesis testing uses multiple regression analysis. The Results of Analysis Show Thrang Financial Targets (Inspective Indicators), and director of the views (Arrogance Indicator) Affect Financial Statement Fraud. Meanwhile, Financial Stability, External Pressure, Institutional Ownerships US Indicators of Pressure US US The Quality of External Auditor, Auditor Change, and Change of Directors do not AffectFinancial Statement Fraud.

1. INTRODUCTION

Financial statements in the business world are often used as a reference by interested parties (stakeholders), because it is considered to have posts and important instruments to reflect their company's condition in terms of financially. Financial statements are also one of the management communications tools and is also a form of their accountability to (stakeholders) Outside of the company, therefore the position of financial statements becomes very important and the reporting should continue to be watched in order to avoid unwanted things such as (fraud). Financial reporting plays a role in providing useful information to make rational decisions on investments, credit, and other similar decisions. Given the importance of the role of financial statements there is always the possibility that the management is inclined to practice cheating in his financial statementsfraud) to obtain certain advantages.

Cheating (fraud) basically have different definitions according to fraud's characteristics and the environment in which the phenomenon is found. UnderstandingfraudIn the scope of the Cooking Industry loaded in the Regulation of Financial Services Authority (OJK) Number 39 / Pojk.03 / 2019 Article 1 Paragraph (2) [1]"Fraudis an act of deviation or daeleration that is deliberately doneTo trick, deceive, or manipulate the bank, the customer or other parties, which occur in the bank's environment and / or use the bank means that result in banks, customers, or other parties suffer losses and / or the perpetratorsFraudObtain financial benefits either directly or indirectly".

Addressing To tackle the risk occurring in the banking industry, OJK issuing the Regulation of the Financial Services Authority Number 39 / Pojk.03 / 2019 [1] on the application of the applicationAnti FraudFor the General Bank, that the business of business banks can be exposed to the wrong operational riskthe only comes fromfraud, and to minimize the occurrencefraudrequired strengthening control systeminternalin the form of strategy implementationAnti Fraudby the bank. With regulation regulation is expected that the bank is required to implement strategyAnti FraudEffectively to realize a healthy business environment especially in the banking industry. In composing and implementing strategiesantifraudEffective, the Bank shall pay attention to at least: a. Condition of Internal and External Efforts; breakfast. the complexity of business activities; C.. Types, potentials, and risksfraud; and d. The adequacy of resources required ([1] Article 3 paragraph (3)).

To realize the strategy*antifraud*According to OJK Regulation [1] Article 4 describes the preparation and application of strategy*antifraud*At least contain four pillars consisting of: a. prevention; breakfast. detection of; C.. Investigation, reporting, and sanctions; and d. Monitoring, evaluation, and follow-up. To control the risk of occurrence*fraud*, the Bank shall implement risk management in accordance with the provisions of OJK regulations on the application of risk management for the General Bank, Sharia General Banks and Sharia Business Units ([1] Article 5).

Cheating can occur in all types of companies, ranging from small companies to the company*Go public*which has been registered in the Stock Exchange even international international companies. The factors that cause cheating is called by*Fraud Triangle*found Cressey (1953) [2], namely: pressure*(pressure),*opportunities*(opportunity),*and rationalization*(rationalization).*Then the theory was re-developed by Wolfe and Hermanson (2004)[3], by introducing*Diamond Fraud*through the addition of fourth elements in*Fraud Triangle*That is the element of capability (*capability*). According to Wolfe and Hermanson (2004) [3], capabilities are a person's ability to perform fraud and cheating by utilizing existing opportunities, so they assume that fraud or cheating they do will be unlikely to other people as long as they have confidence of their knowledge and capabilities in running*fraud*. However they must have good ability to recognize the opportunities that can be utilized to be the same as possible to benefit they want.

In 2011, there is a model development*fraud*By Howart Crowe [4] By adding 2 triggers factor*fraud*from*Fraud Triangle*[2], namely capabilities (*capability)*and arrogance (*arrogance*). This theory is better known as*Crowe'S fraud pentagon theory*(*fraudPentagon*).*Capability*in question is the ability of individuals in doingthe fraction of action, as an example is to take advantage of the position owned as one*capability*someone to do*fraud*. The next additional trigger factor is the arrogance is a factor that refers to a person's attitude that assumes that internal controls, policies and regulations of companies can not apply to itself so that the perpetrators feel innocent over the fraud-acting has been done.

Theoryfraudused in this study isPentagon Fraud TheoryCrowe (2011) [4], using 5 factors considered as triggersfraud, consisting of pressure(pressure), Opportunities(opportunity), rationality(rationalization), Capabilities(capability), andarrogance(arrogance).Then these factors are developed to 9 proxys used as measurements of each factor contained inPentagon Fraud, to order. Even to figure happens or not a cheating through the proxy variables used. The proportion variable in this study consists of: pressured by progression, financial stability, external pressure, extraction execution, and ownment of institutional; opportunities are cosly with the ineffectiveness of quality and external auditors; rationalization is prograted with the turn of the auditor; capability is progribed with the turn of the Company's directors; as well as arrogance is checked with the number of photosChief Executive Officer(CEO).

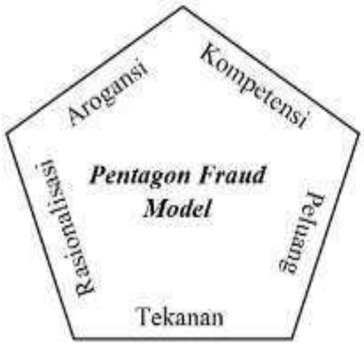

Figure 1. *Pentagon Fraud Model*[4]

Research on*Pentagon Fraud*Previously had been done by several studies. Bawakes*et al.*(2018) [5] In the company listed on the Indonesia Stock Exchange (BEI) and the results show that financial stability and the number of CEO photos are crossed with a significant effect on*Fraudulent Financial Reporting*,However, financial targets, external pressure, institutional ownership, ineffective monitoring, external audit quality, changes in auditors and the Board of Directors has no significant effect on*Fraudulent Financialreporting.*This is different from Ulfah research*et al*. (2017) [6] On Banking in Indonesiaregistered in BEI, indicating that the turn of the auditor alone has a significant effect on*Fraudulent Financial Reporting*. Therefore research*fraud*with approach*Pentagon Fraud*interesting is done.

This study aims to determine that the indication of the classification of the financial industry also affected the phenomenon of cheating (*fraud)*such as other industries. This is given that the financial sector is one of the very important sectors to channel, stores the funds from the community, and provides some excellent financial services products to facilitate financial activities from both national and international scale.

2. Review of literature and hypothesis development

2.1. Cheating*(Fraud)*and*Financial Statement Fraud*.

Association of Certified Fraud Examiners(Acfe, 2018) [7],mendefiniskian*fraud*as aAccidental or actions or deeds for certain purposes and are against the applicable legal rules, performed by the party or outside the organization to benefit unilaterally and directly or indirectly can detriment to the other party. Meanwhile, fraud of financial statements are defined as cheats made by management in the form of misstandability of financial statements that are adverse to investors and creditors [7]. This cheating can be financially or non-financial.

2.2. Financial Target*(Financial Target)*

Financial Target*(Financial Target)*It is a state achieved through the performance of a company in generating return on the effort that has been issued, the financial target is transported with*Return On Total Assets (ROA)*. According to Skousen*et al.*(2009) [8] states that*Return onTotal Asset (ROA)*is the size of operational performance that shows how efficientlyThe company in managing the assets that have been used. Dendawijaya (2005) [9] shows that the greater the roa ratio is produced, the better the financial position of a company in terms of asset management.

The h1: Financial targets affect the effect*Financial Statement Fraud*.

2.3. Financial stability (*Financial stability)*

Financial stability (*Financial stability)*It is a condition where the company can be said to be stable when viewed in terms of finance. The lessonable state condition requires managers to commit a variety of ways to make companies do not experience financial difficulties. Financial stability is proxed with the percentage of total asset changes or is called the asset change ratio [8]. Loebbecke*et al.*(1989) [10] and bell*et al.*(1991) [11] found a case that the growth of the company under the average competitor's company will make management tend to manipulate financial statements to raise the company's prospect [8].

H2: Financial stability has an effect on*Financial Statement Fraud*.

2.4. External pressure (*External Pressure)*

External pressure**(***External Pressure)*is a condition where the company has pressure from outside parties (Herdiani, 2013) [12]. This phenomenon is caused by the need to obtain additional funds from debt and other financing sources to cover costs*(cost)*Company, and also to meet the needs related to research, development orcapital. External pressure can be measured from*Leverage ratio*, the ratio of total debt is divided by total assets. Company with percentage*leverage*The high enough raises the difficulty of getting loans again in the future or even failing to pay debt, so the manager has a tendency to manipulate. The ratio of*leverage*The high also causes the free cash flow ratio to be smaller, so it can inhibit their development to expand their company [8].

H3: External pressure affects*Financial Statement Fraud*.

2.5. Institutionan's ownership (*Institutional Ownership)*

Institutionan's ownership (*Institutional Ownership)*It is a type of ownership of the company's shares held by non-bank institutions that manage funds on behalf of others. To expand his company becomes larger, it takes a large funding source, therefore sells some shares into a reasonable option. However, claims*et al.*(2000) [13], it will also have an impact on the absence of clear separation of control between ownership and managers, such situations often occur in the company*Go public*. The institutionalo ownership in a company will be its own pressure for managers, because they are given great responsibility to manage funds from investors. The management raises pressure for the manager, which causes the manager to have to manipulate business earnings from its financial statements.

H4: Institutional ownership affects*Financial Statement Fraud.*

2.6. Ineffectiveness of supervision (*Ineffective monitoring)*

Ineffectiveness of supervision**(***Ineffective monitoring)*Is a condition in which the company suffered ineffectiveness in running internal control system, internal control system and good corporate surveillance system, so it can be significantly able to minimize the occurrence of cheating practice, no exception of the financial status of the financial statements (Maghfirah*et al.*, 2015) [14]. The ineffectiveness of supervision can be measured from the ratio of independent commissioners. According to Effendi (2008) [15], Independent Commissioner is a member of the Board of Commissioners who meet the requirements of no affirmation of affiliated with shareholders, Directors, other Commissioners, not working with a affiliated company and understanding the capital market laws.
H5: The ineffectiveness of supervision affects*Financial Statement Fraud.*

2.7. Opportunity*(Opportunity)*

Opportunity*(opportunity)*Very dependent on the quality of external auditors*(External Auditorquality).*Cheating practices often occur as an impact of the absence of supervision or*monitoring*The weak is mainly from external auditors, so that opportunities for agents (managers)To perform the earnings regularly earned action (Muranti And 2010, [2010].

H6: The quality of external auditors affects*Financial Statement Fraud.*

2.8. Rationality (*Rationality)*

The rationality is the attitude of justification of the act of act of fraud that considers the action they do is wrong. According to Shelton (2014) [17] rationalization is about begaa to justify his mind to take crime. Rationalization can be reviewed by the turn of the auditor, as the period periodically sometimes deliberately replaces the old external auditors to eliminate*Fraud Trail*Auditor before.

H7: Angel's turn impact on*Financial Statement Fraud.*

2.9. Capability (*Capability)*

Capability (*Capability) M*Equar Wolfe and Hermanson (2004) [3] can be seen from the transmission of the board of leverage the company*Stress Period*and impact on the increasingly decreased condition of the company, so the more open gaps to do*fraud.*Managers with certain capabilities have the ability to see the gaps utilized to perform a fraudulent that just benefit yourself or groups. A director is considered to have a high competence and an important position in the company in determining any company's decision, so it must be supervised to ensure that what he has done has been implemented well.

H8: The submission of the company's directors affects*Financial Statement Fraud.*

2.10. Arrogance (*Arrogance)*

Arrogance (*Arrogance)*Can be defined as a character or attitude of a person who feels that he has a privilege to do everything he wants and assumes that the limit that exists not apply to him [4]. Briefly they thought as if it would be of the restrictions and regulations in the company, and assume that he was held the highest power in the company, so it could do ascendized by anything including cheating (*fraud*). High levels of arrogance owned by CEOs caused high ego that any internal control would not apply to itself due to status and position owned. According to Crowe (2011) [4], it can also cause the possibility that the CEO will perform various ways to maintain the position and position now owned. Number of CEO Photos (*Frequent Numberof CEO'S picture)*can show the magnitude of arrogance. This condition was found in Ressa research and Harto (2016) [18].

3. METHOD

The population in this study is an open company listed on the classification of the financial industry in the Indonesia Stock Exchange (BEI). The sample of research is a company on the classification of the financial industry registered in the BEI period 2016-2019. The data used in this study is secondary data in the form of the company's annual financial statements*Go public*Available on OS official SEFITS. The sampling method used is*Purposive Sampling*With the criteria described in Table 1 and obtained 29 companies in the classification of the financial industry to be observed for 4 years

Table 1. Sampling selection of crime

Information	Total
The Company on the classification of the financial industry (sector 8) registered in the BEI in a row in the period 2016-2019.	91
Companies that do not issue annual reports and financial statements auditan in the period 2016-2019.	(62)
Companies that use foreign currency	(0)
The number of companies used as sample	**29**
The amount of observation data is due to 4 years	116
Outlier	3
The amount of data is processed	**113**

Source: Data (Profession Data (2020)

Detection*Financial Statement Fraud*done by using*fraud score model*developed Dechow*et al.*, (2011) [19]. The use of*fraud score model*, or*F-scores*can determine the average*F-scores*And its deviation standards for its application in various countries, or various sectors in the same country. Variable component*F-score*covering two things that is*Accrual Quality*which is progribed with the RSST, and*Financial Performance*which is progribed withChanges of accounts receivable, changes in inventory accounts, changes in cash sales accounts, change*EBIT*. The model*F-score*summake two variables is the quality of accrual and financial performance.

$$F\text{-}score = Accruual\ Quality + Financial\ Performance \quad (1)$$

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To distinguish between the financial statements that contain the wrong sourcing with which do not contain the wrong, made*cut-off*As a benchmark of the ratio of the wrong risk of miscleary financial statements [19]:
1 for*F-score*> 2.45 high risk (*High Risk*)
2 for*F-score*> 1.85 substantial risk (*Substantial Risk*)
3 for*F-score*> 1 Risk above normal (*Above normal risk*)
4 for*F-score*<1 low or normal risk (*Normal or low risk*)

Furthermore Table 2 presents measurements for independent variables that are amazed titled with factors from*Pentagon Fraud Model*and the proxy is used.

Table 2. Measurement of the grounds*Pentagon Fraud*

Observations*Pentagon Fraud*	**Measurement**
Financial Target (TK) Skousen*et al.*(2009) [7] Cashmere (2013) [20]	(2)
Financial Stability (SK) Skousen*et al.*(2009) [7]	(3)
External Pressure (TE) Skousen*et al.*(2009) [7] Cashmere (2013) [20]	(4)
Institulate Ownership (KI) Skousen*et al.*(2009) [7]	(5)
Ineffectiveness of Surversation (KP) Skousen*et al.*(2009) [7]	(6)
Quality of External Auditor (KAE) Skousen*et al.*(2009) [7]	Variable*dummy*: 1 = If the company uses public audit office audit services (KAP) who is affiliated with international hood 0 = If the company does not use affiliated capacity of the capability of hood With the international hood or local hood.
Angelitor's turn (PA) Skousen*et al.*(2009) [7]	Variable*dummy*: 1 = If there is a KOP change during the period 2016-2019 0 = If there is no KOP change during the period 2016-2019
Substitution of the Company's Directors (PDP) Wolfe and Hermanson (2004) [3]	Variable*dummy*: 1 = In case of the company's correction changes 0 = If no change of corporate directors
Number of CEO Photos (JFC) Crowe (2011) [4]	The number of CEO photos are crossed in each of the Company's annual reports.

The method of analysis used in testing hypothesis research is multiple linear regression analysis with significance level of 10%. The regression model in this research is:

$$F\text{-}score = A + B_1TK + B_2SK + B_3Te + b_4Ki + B_5KP + B_6KAE + B_7Pa + B_8PDP + B_9JFC + E$$

4. RESULTS and DISCUSSION

3.1 The result of classical assumption test

The result of multiple linear regression analysis tests have the requirement to pass the classical assumption test before first inserted in the regression equation done (Ghozali, 2011) [21]. The results of classical assumption tests are presented in Table 3.

Table 3. The result of classical assumption test

Variable	Test results Heteroskedasticitas	Multicolinearity test results	
		Tolerance	*Vif*

Financial Target	0,350	0,709	1,411
Financial stability	0,435	0,922	1,084
External pressure	0,933	0,786	1,272
Institutional ownership	0,378	0,891	1,122
Ineffectiveness of supervision	0,570	0,932	1,073
Quality of external auditor	0,423	0,884	1,131
Turn of the auditor	0,322	0,838	1,194
The turn of the company's directors	0,439	0,878	1,139
Number of CEO Photos	0,866	0,862	1,160
Durbin Watson Test	1,607		

Source: Data (Profession Data (2020)

By paying attention to table 3, it can be concluded there is no multicolinearity problem in the regression model because all the amenities show the value*tolerance*above 0.1 and*VarianceInflation Factor*(VIF) not exceeding 10. Normal distributed research data by followingCentral limit theorem. Result of the test*Durbin-Watson*Indicates there is no autocorrelation problem because the DW value of 1.607 is between Du <DW <4-du (1.5255 <**1,607**<1,8676). The result of gesjer test also shows no occlarystosasticity problem, because the significance value of the organization's variation of the objections with the absolute residue value of more than 5 percent.

3.2 The result of the hypothesis testing and discussion

Table 4 shows the results of hypothesis testing with multiple linear regression analysis. Regression equations are a fit model with a significance of F by 0.000 and the determination coefficient of 0.167.

Table 4.Many partial line regression test results

Variable	Regression coefficient	Significance	Information
Financial Target	17,298	0,000 **	H1 accepted
Financial stability	0,326	0,492	H2 is rejected
External pressure	0,135	0,768	H3 is rejected
Institutional ownership	0,100	0,522	H4 is rejected
Ineffectiveness of supervision	2,466	0,056 *	H5 accepted
Quality of external auditor	-0,305	0,609	H6 is rejected
Turn of the auditor	-0,139	0,701	H7 is rejected
The turn of the company's directors	0,311	0,365	H8 is rejected
Number of CEO Photos	-0,341	0,078 *	H9 received
Constant	-0,162		
Adjusted R^2	0,167		
Value F	3,494	0,000	

significant at 0.05 and 0.10
Significant at 0.10
Source: Data (Profession Data (2020)

The result of multiple linear regression analysis shows the following regression equations:

F-score = -0,162 + 17,298tk + 0.326Sk + 0.135te + 0.100ki + 2.466kp - 0,305kae-0,139pa + 0.311pdp-0.341jfc + E

This research was conducted aimed to analyze the theory*Fraud Pentagon*To detect cheating financial statements (*Financial Statement Fraud*), the elements used in theory*Fraud Pentagon*itself covers, pressure (*pressure*), Opportunities (*opportunity*), rationalization (*rationalization*), Capability (*capability*) and arrogance (*arrogance*) with each proxy and measurement. From the results of the study can be seen that for the classification of financial industry in Indonesia there are three elements*Pentagon Fraud Model*What to note, ie pressure (*pressure*), Opportunity (*opportunity*), and arrogance (*arrogance*).

Pressure is explained by some reviews, but only the financial targets that affect*Financial Statement Fraud*(Table 4).Pressure that arises because the financial target that the company's management should achieve allow management to make the effort to make the financial position remain stable [7] [8]. Therefore there is an indication of the fraud financial statements resulted in higher target financial. Other pressure reviews are financial stability, external pressure and institutional ownership does not affect*Financial Statement Fraud*. When viewed from the third regression coefficient of the obscure is actuallyIndicates that management should be able to maintain financial stability and utilize external pressure as well as consider institutional ownership that invests in the company. These things demanded the management of the remaining financial performance even despite the pressure of the inside and outside the company and allow management to do*fraud*. But in the financial sector of action*fraud*will be terminationalized because the role of independent authority that also supervises the company.

Opportunities are progribed with two reviews in Table 4 show that the effectiveness of supervision affects*Financial Statement Fraud*. These results indicate that companies with an ineffective control system to bring up great opportunities for the financial statement of the financial statements [13]. The quality of external auditors has no effect on*Financial Statement Fraud*, meaning the local and hood of the affiliated hood with the international hood basically has the same audit quality and maintains their audit quality professionally. It is important to minimize the occurrence*financialStrament Fraud*.

Rationalized transmissionals with the turn of the auditor has no effect on*financialStrament Fraud*. The results of this study indicate that the company mostly remainsMaintain auditor more than one audit period. Similarly, capabilities of the submission of the Company's Board of Directors are not affected*Financial Statement Fraud*, meaning the company's directors are able to maintain its performance and keep following the standards that the company applied and stakeholders (especially the Government).

Arrogance is progribed with the number of CEO photos affecting*Financial Statementfraud*. The results of this study indicate that there is an indication that CEOs do variousEfforts to stay in their positions or positions. The results of this study supports opinions and models*fraud*from Crowe (2011) [4] and [17].

5. CONCLUSSION

Pentagon Fraud Modelconsists of five elements and for the financial industry classification onIndonesia at some time this last shows that pressure, opportunity and arrogance have an effect onFinancial Statement Fraud. Influential proxy is the financial target (pressure), the ineffectiveness of the oversight (opportunities) and the number of CEO photos (arrogance), while Financial stability, external pressure and institutional ownership (from pressure), as well as the quality of external auditors (from opportunities) have no effect on*Financial Statement Fraud*. For rationalization and capability elements also do not audarize financial stability, external pressure and institutional ownership does not affect*Financial Statement Fraud.*

Approach to researching indicationsFinancial Statement FraudBegin to develop adjusting the condition over time, but research on the classification of financial industry is attractive because of the accounting recording of the characteristics that has different characteristics of other industries. Therefore, further research can be done with a period of pre-or long-term period for indigencation of Fraud can be known to factors for long-term conditions. In addition, the study can further use different and varied proxy and to ensure proper proxy to measure the financial industry.

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