

# The Analysis of Triangle Fraud Factors to Fraudulent Financial Statement

(Empirical Study on Manufacturing Company Registered in Indonesia Stock Exchange Year 2012-2014)

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**Abstract—** This research aims to analyze the fraud triangle against fraudulent financial statement. Based on research conducted [13] et al., This study developed a variable of the fraud triangle that can be used, namely the pressure is proxied by financial stability (AGROW), external pressure (LEV) and financial targets (ROA). Opportunities are proxied by ineffective monitoring (IND). And rationalization proxied by the change of auditors (AUDCHANGE). While fraudulent financial statements are measured by [2] Score. The population in this research was manufacturing companies in 2012-2014 listed in the Indonesia Stock Exchange. Companies that take into population is 152 companies, while the research sample was 47 companies and a number of observations made during the years 2012-2014 is 141 items, observations. Statistical tests showed that empirically variable pressure proxied by financial stability (AGROW) has a significant positive effect on the level of risk of fraudulent financial statements. While variable pressure is proxied by external pressure (LEV) and financial targets (ROA) has positive and negative influences were insignificant. Opportunities are proxied by ineffective monitoring (IND) have no significant negative influence. And rationalization is proxied by the change of auditors (AUDCHANGE) had no significant positive effect.

**Keywords—**fraudulent financial statement; fraud triangle; financial stability; external pressure; financial targets; ineffective monitoring; and auditor switching.

## I. INTRODUCTION

An error and frauds in the context of financial reporting indicate a material misstatement by either an organization or an individual. The fraud is one of the economic crimes, which cost a great deal to an organization and more tragically again that the organization concerned implicitly seemed to hide it ([10], 2011, p1).

If the case of fraud, manipulation and embezzlement is relatively much experienced by the Internal Audit team (systemic "cheating"), it can be concluded that the corporation where the auditor is located has weak human integrity and fragile in terms of internal control system and risk management. That is, the internal audit team on such corporations is questionable in its ability to prevent crime ([6], 2011, p134).

Experience shows that anyone in a position to borrow money or invest in a business may be a target in fraud or cheating. All capital market participants may become victims

in one way or another, without exception. For example, banks can be cheated when lending to companies, or indirectly money laundering operations using bank services used for improper purposes ([17], 2014, p76-78).

Financial institutions such as brokers or dealers in securities, commodity brokers, investment banks, investment management companies and mutual funds can also commit fraud. Generally, this happens when the agency is used for the personal gain of its employees, using the essential financial information for insiders only, rather than sharing with their clients ([17], 2014, p76-78).

According to Gary W. Adams et al. In Fraud Prevention An Investment No One Can Afford to Forego (2006) defines fraud as "the use of one's position or position to enrich oneself through misuse or intentional misuse of resources or assets of a company or organization" ([10], 2015, p1 ).

There are several types of fraud and many ways to recognize it through previous fraud disclosure experiences, accountants differentiate cheats in 3 categories: first is asset labels, this form of fraud consists of: theft of cash or inventory, skimming (money laundering through capture- an account number of others), cheating and winnings. The second is fraud in the financial statements, this type of fraud is characterized by intent to make the financial statements into misstatements or miscounts in the disclosure of financial reporting, with the intent of deceiving users of financial statements. More specifically, fraud in the report involves manipulation, forgery or accounting records changes or supporting documents used for the preparation of a financial report. And the third is corruption. Corruption is prevalent in developing countries with weak law enforcement systems, and a lack of awareness of good governance so that the integrity factor is questionable. This type of fraud is often undetectable because the cooperating party has an advantage (symbiotic mutualism). ([17], 2014, p6-8).

In Indonesia we met many cases of financial reporting fraud committed by companies to cover the fraud that occurred so that financial statements become attractive views for readers and users of financial statements. One case that is the case of PT. Green River, which stems from the difficulties of PT Green River to pay its debts and cash flow continues to decline. After investigating investigative auditors from Bapepam, they found indications of inflation of sales

accounts, receivables and assets up to hundreds of billions of dollars in Green River financial statements.

The accountant who is considered guilty and involved in this case is Justinus Aditya Sidharta. According to Justinus, Great River received many orders of making clothes from abroad with raw materials from the customer. So Green River only cost the clothing, making operation. But when orders are shipped overseas, the export value is included by adding the price of raw materials, accessories, work costs, and company profits. Justinus stated that such a record model aims to avoid alleged dumping and tax sanctions. Because, he said the net profit balance is no different from that received by the company. He suspects that's what triggers the alleged inflation of sales value. So interpreted as to conceal information deliberately. Johan Malonda & Associates began to become Great River auditors since 2001. At that time the company still struggled to pay US \$ 150 million debt to Deutsche Bank. In 2002, Great River got a 85 percent debt principal and the remaining debt was paid using a loan from Bank Danamon. A year later Great River published bonds of Rp 300 billion to repay the loan.

Therefore, the Minister of Finance of the Republic of Indonesia since November 28, 2006 has suspended public accountant Justinus Aditya Sidharta for two years for violating the Public Accountants Professional Standards (SPAP) related to the Audit Report on Consolidated Financial Statement of PT. Great River of 2003.

In the book fraud auditing & investigates the concept of fraud triangle is currently used extensively in Public Accounting practice in the Statement of Auditing Standard (SAS) no. 99, Consideration of Fraud in a Financial Statement Auditing replaces SAS no. 82. This concept rests on the research of Donald Cressey (1953) which concludes that fraud has three common traits. The fraud triangle consists of three conditions commonly present at fraud: pressure, opportunity and rationalization ([9], 2013, p44)

The analysis using fraud triangle in detecting fraudulent financial statements has previously been done by Cressey (1953), Turner et al. (2003), [7] (2009), [13] et al., (2009), [11] (2014) and others .

From the description above, this research is intended to detect the presence or absence of fraudulent financial statements by using pressure factors, opportunities and rationalization. From the description, then the questions in this study are:

1. What factors include external pressures, financial targets and financial stability affect the fraudulent financial statement?
2. Does the opportunity factor include ineffective monitoring effects on fraudulent financial statement?
3. Does the rationalization factor that includes the rotation auditor affect the fraudulent financial statement?

## II. THEORETICAL THINKING FRAMEWORK AND HYPOTHESES FORMULATION

### A. Agency Theory

Jensen and Meckling (1976) define agency theory as a contract in which one or more principals involve management (agent) to perform some services on their behalf. Management is a party contracted by shareholders to work in the interests of shareholders and agents will always act best for shareholders' interests. Therefore, managers must be responsible to shareholders ([11], 2014).

Given the differences in interests between agents and principals is what causes the conflict. This conflict can lead to information asymmetry between the two parties. Agents as internal parties of course have more information when compared with the principal because everything associated with the company becomes the responsibility of the agent because the agent's performance determines the future of a company. This is what agents use to hide information for the principal. Information that managers do not need to be known by the principal can be easily hidden for a particular purpose. In addition, the high compensation expected by an agent raises them to perform various ways to get the compensation. This situation will cause a manager to cheat. Therefore, the lack of information gained by the principal on the performance of agents leads to an imbalance of information between the two. This is the gap of agents to cheat ([11], 2014).

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### B. Fraud

The In Fraud and Corruption (2015, p1) Bona P. [10] defines fraud as "the use of one's position or position to enrich oneself through abuse or deliberate misuse of resources or assets of a company or organization ". Gary W. Adams and colleagues put special emphasis on targets fraud believe in corporate assets.

#### 1. Fraudulent Financial Statement

Fraud in the financial statements is a misstatement or abolition of the amount or disclosure deliberately done in order to deceive the users. Most cases involve misstatements against reported amounts versus disclosure. The abolition of reported numbers is a less common case, but a company may outweigh its revenue by eliminating other trade payables and liabilities ([1], 2011, p 372-373).

#### 2. Fraud Triangle Theory

This theory was coined by Cressey (1953) which was introduced in professional literature on SAS No. 99, Consideration of Fraud in a Financial Statement Audit. In general fraud has three traits as expressed in the fraud triangle. Where the conditions are generally present at the time of fraud occurs:

- Pressure (Pressure)

According [12] (2013) pressure is the impetus of people to do fraud. Stress can cover almost anything including lifestyles, economic demands, and others, including financial and non financial. In SAS No. 99, there are four types of common conditions occurring in pressure that can lead to cheating. These conditions are financial stability, external pressure, individual financial needs, and financial targets.

- Opportunity

Nabila (2013) argues that opportunities are opportunities that enable fraud. The perpetrators of fraud believe that their activities will not be detected. Opportunities may occur due to weak internal controls, poor management control or through the use of positions. Opportunities for fraud are based on the general position, management of a company has a greater potential for fraud than the employee. 99 states that opportunities for fraudulent financial statements can occur in three categories. These conditions are industry conditions, ineffectiveness of supervision, and organizational structure.

- Rationalization (Rationalization)

One of the most important elements of fraud is rationalization, in which the offender seeks justification for his actions. Rationalization is part of the most difficult fraud triangle to be measured ([13] et al., 2009). Attitude or character is what causes one or more individuals to rationally conduct fraud. The main determinant of the quality of financial statements is the integrity of management.

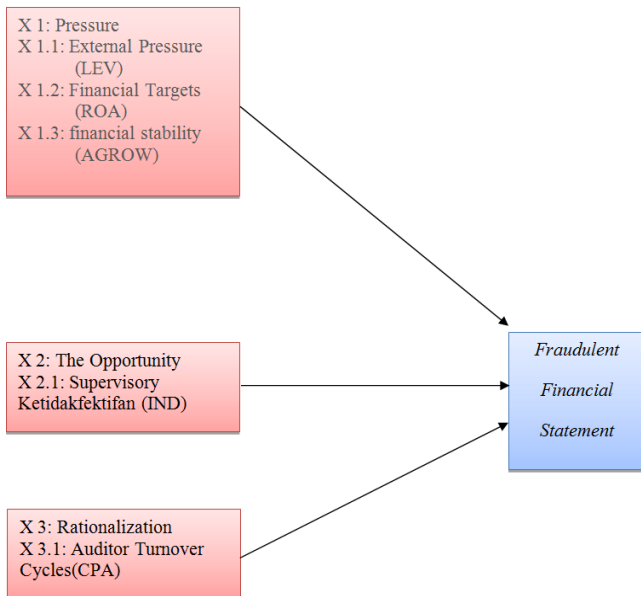


Fig. 1. The Framework Of Thought

### C. The Hypothesis

Based on the above, a paradigm whose hypotheses are

1.  $H_{01}$ : pressure Factors include external pressure, financial targets and financial stability of the influential insignificant against fraudulent financial statements.

$H_{a1}$ : pressure Factors include external pressure, financial targets and financial stability of significant effect against fraudulent financial statements.

2.  $H_{02}$ : chance Factors include ineffective monitoring effect insignificant against fraudulent financial statements.

$H_{a2}$ : chance Factors include ineffective monitoring of significant effect against fraudulent financial statements.

3.  $H_{03}$ : rationalization of the Factors include the rotation of Auditors effect insignificant against fraudulent financial statements.

$H_{a3}$ : rationalizing the Factors include the rotation of Auditors significant effect against fraudulent financial statements.

## III. RESEARCH METHODS

### A. Research variable

1. Financial reporting fraud (Y)

In this study the dependent variable is a fraudulent financial statement which is a dummy variable measured by [2]-Score Model. If the [2]-Score Model calculation is greater than -2.22 (i.e. less than negative) then the financial statements can be concluded that it has been manipulated with a value of 1 being categorized as fraud, otherwise if [2]-Score Model is smaller than -2.22 then the financial statements can be inferred not manipulated with value 0 which is categorized as non fraud.

2. Financial stability (X1.1)

Financial stability is a company's financial condition from stable condition. Variable of financial stability is proxied by using asset growth rate (AGROW) ([3], 2013). 99 managers face the pressures associated with financial statement fraud when financial stability and / or profitability are threatened by the economy, industry or operating conditions of the company. Loebbecke et al. (1989) and Bell et al. (1991) indicates that where the company is experiencing growth it will be below the industry average so that managers will manipulate financial statements to look better. But with the rapid growth of the company will still manipulate the financial statements for the growth seems more stable ([15] & Sari, 2013) .

3. External pressure (X1.2)

The ability of exchange-listing requirements, debt repayment or meet debt covenants included in external pressure. Vermeer (2003) and Press and Weintrop (1990) report that when confronted with violation of debt covenants, managers would prefer to trust discretionary accruals. Then debt levels are related to income increasing discretionary accruals (DeAngelo et al.1994; DeFond and Jiambalvo 1991). Managers will feel under pressure as a result of the need to obtain additional debt or equity financing to compete. External pressure is an overpressure for management to meet the requirements or expectations of third parties. The external pressure variable is proportional to the leverage ratio (LEV) (Martantya and Daljono, 2013).

#### 4. Financial targets (X1.3)

Return on asset (ROA) is a proxy for financial target variables. ROA also shows how much the return on assets owned by the company. To show how efficiently assets have worked, use the ratio of profit to the amount of assets or return on assets as a measure of operational performance is widely used ([13] et al., 2009). If ROA shows a negative result can be interpreted that the company's profit is also in negative condition, which means the ability of the capital invested in total assets have not been able to generate profits. The actual ROA that the previous year has achieved will be used by management to set financial targets for the following years. So, it can be seen whether in the current year the profit generated has reached the financial target that has been established or not ([3], 2013).

#### 5. Ineffectiveness of supervision (X2.1)

The widespread of accounting scandals and fraudulent practices is one of the impacts of the weakness of supervision by companies that have provided an opportunity for a person to act in accordance with his personal interests. With ineffective supervision, management will feel less strictly monitored and more freely seeking ways to maximize its personal benefits. Therefore, to prevent the occurrence of fraud, it takes another party that is board of independent commissioner ([3], 2013).

#### 6. Auditor rotation (X3.1)

Auditors are important watchdogs in the financial statements. From their hands we can know that there are companies that conduct fraud. Companies that conduct fraud more frequent turnover auditor. Hal is due to reduce the possibility of detection of fraudulent acts of financial statements by the company. Sorenson et al., (1983) states that a company may change its auditor to reduce the possibility of detecting fraudulent financial statements by the auditor (quoted by [7], 2009). Loebbecke et al., In [7] (2009) showed that 36 percent of the fraud in their samples were alleged in the initial two years of the auditor's tenure. Further Krishnan and Krishnan (1997) and Shu (2000) found evidence that the auditor's resignation was positively associated with litigation likelihood ([7], 2009). In this study, if the company performed the auditor turnover, it was encoded with 1, whereas the non-performing auditor replacement encoded with 0.

#### B. Population and Sample

The population of this study is the entire number of manufacturing companies listed on the Indonesia Stock Exchange (BEI) in 2012-2014. In this research sample is determined by non-probability sampling technique using purposive sampling method. The criteria used to select the sample are as follows:

1. Manufacturing companies listed on the Indonesia Stock Exchange (BEI) in 2012-2014.
2. Manufacturing companies that publish annual financial reports and annual reports consistently in 2012-2014.
3. A manufacturing company using the rupiah currency in its financial statements for 2012-2014.

4. Companies that issue financial statements for the period ended 31 December during the period of observation 2012-2014
5. Companies reporting earnings on their financial statements during 2012-2014
6. Companies that have M-Score value  $\geq -2.22$  in 2012 to 2014 although only one year in periode is a company indicated to conduct fraud so that samples in this study.

#### C. Analysis Method

Hypothesis testing used in this research is logistic regression analysis as follows:

$$FFS = \alpha + \beta_1 LEV + \beta_2 ROA + \beta_3 AGROW + \beta_4 IND + \beta_5 CPA + \varepsilon \quad (1)$$

As follows :

FFS	: variables are coded by number 1 (one) to companies that perform fraudulent financial statement indicated by the votes of the [2] Model M-Score that is the company that owns the M-Score $>-2.22$ and the M-Score $-2.22 <$ for companies indicated by not doing the cheating is encoded with the number 0 (zero)
$\alpha$	: Constants
variable coefficient $\beta$	: LEV: the percentage of External Pressure
ROA	: the percentage of Financial Targets
AGROW	: Financial Stability Ratios
IND	: the percentage of Ineffectiveness of supervision
CPA	: The Size Of The Turn Of The Auditor
$\varepsilon$	: Error

### IV. RESEARCH RESULTS AND DISCUSSION

#### A. Description of Research Objects

Manufacturing companies listed on the BEI in 2012-2014 are as many as 153 companies. Manufacturing companies that are not listed on the Indonesia Stock Exchange consistently during the year 2012-2014 as many as 21 companies. Manufacturing companies that do not publish the financial statements and annual reports consistently in 2012 -2014 as many as 20 companies. Manufacturing companies that do not use the rupiah currency in its financial statements during the year 2012-2014 as many as 25 companies. Companies that report losses in its financial statements for the year 2012-2014 as many as 33 companies. And companies that have M-Score value  $\geq -2.22$  in 2012 until 2014 although only one year in periode is a company that indicated to do fraud so that samples in this research as many as 7 companies. Table 1

#### Population and Sample Research

TABLE I. POPULATION AND SAMPLE RESEARCH

Description	The total number of
The number of the population or the number of companies listed at the IDX of the year 2012-2013	153

Description	The total number of
The number of manufacturing companies that are not listed on the Indonesia stock exchange (idx) consistently during the year 2012-2014	(21)
The number of manufacturing companies that does not publish financial reports and annual report consistently in years 2012-2014	(20)
The number of manufacturing companies that do not use the currency of rupiah in financial reports during the year of 2012-2014	(25)
The number of companies that report their financial reports on the loss for the year of 2012-2014	(33)
Companies that don't have a value M-Score $\geq -2.22$ in 2012 to 2014 although only one year in periode	(7)
The number of sample enterprises included in the criteria	47

<sup>a</sup>. Source: Secondary data processed, 2015

### B. Descriptive statistics

The results of descriptive analysis for companies that indicated fraud can be seen in table 2 below:

TABLE II. DESCRIPTIVE STATISTICS

	N	Mini mum	Maxi mum	Mean	Std. Deviation
AGROW	141	-.1669	.4282	.131613	.1111617
LEV	141	.1364	.8809	.428158	.1727342
ROA	141	.0007	.6572	.112955	.1036110
IND	141	.2500	.7500	.383704	.0918864
Valid N (listwise)	141				

<sup>b</sup>. Source: secondary data processed, 2014

Has Variables AGROW minimum value of -0.1669 while the maximum value of 0.4282. The mean value (mean) of this variable is 0.131613 while the standard deviation of 0.1111617. For LEV variable the minimum value is 0.1364 while the maximum value is 0.8809. The mean value (mean) of this variable is 0.428158 while the standard deviation is 0.1727342. For ROA variable its minimum value is 0.0007 while its maximum value is 0.6572. The average value (mean) of this variable is 0.112955 while the standard deviation is 0.1036110. For the IND variable the minimum value is 0.2500 while the maximum value is 0.7500. The average value (mean) of this variable is 0.383704 while the standard deviation is 0.0918864.

### C. Discussion of Research Results

The SPSS result shows that the Log-likelihood Block Number = 0 is 192,899 while the Log-likelihood Block Number = 1 is 181,256. This result indicates a decrease of 20,289 from -2 Log likelihood Block Number = 0 to -2 Log likelihood Block Number = 1. This likelihood decrease shows a better regression model or it can be said that the model is hypothesized fit with the data. The value of Hosmer and Lemeshow Goodness of fit statistic is 5,265 with probability significance 0,729 whose value is far above 0,05. Since the value of Hosmer and Lemeshow Goodness of fit is well above 0,05, the null hypothesis can not be rejected and means the model is able to predict the observation value. While the value of Cox Snell's R<sup>2</sup> is 0.079 and the value of nagelkerke's R<sup>2</sup> is 0.106 which means that variability of dependent variable can be explained by variability of independent variable equal to 10.6%.

### D. Hypothesis testing

Testing logistic regression hypothesis can be done by only see table of test result of logistic coefficient on column significant compared with significance value used ( $\alpha = 5\%$ ). If the level of significance  $< 0.05$ , then  $H_1$  can not be rejected or accepted. If the level of significance  $> 0.05$ , then  $H_1$  is rejected.

TABLE III. HYPOTHESIS TEST RESULTS DISCUSSION

		Variables in the Equation					
		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 <sup>a</sup>	AGR	4.992	1.798	7.711	1	.005	147.266
	OW						
	LEV	.041	1.165	.001	1	.972	1.042
	ROA	-.986	1.879	.275	1	.600	.373
	IND	-1.679	2.075	.654	1	.419	.187
	AUD						
	CHANGE (1)	.408	.369	1.228	1	.268	1.504
Constant	.221	.910	.059	1	.808	1.247	

<sup>c</sup>. Source: secondary data processed, 2014

### Pressure variables that include Financial Stability against possible Fraudulent Financial Statement

Based on the regression result, the pressure variables including the financial stability proxied by the total asset change ratio (AGROW) show the coefficient of 4.992 with the significant value of 0.005 which, when compared with the 0.05 significant level has a smaller value, so the first alternative hypothesis that includes financial stability which is proxied by the total asset change ratio (AGROW) in this study

received. This study proves that pressure variables including financial stability (AGROW) have a significant positive effect on the possibility of fraudulent financial statement.

Changes in assets that are too significant each year, indicating the occurrence of financial instability in the company. The financial instability that occurs in this company that triggers the management to commit fraud in the financial statements for financial statements are still in demand by the users. They do the manipulation to cover the instability that occurred at the company. Thus, with a positive constant value indicates the higher the ratio of a firm's asset changes, the higher the risk level of fraud to its financial statements.

The results of this study support research conducted by [13] et al. (2008) stating that the ratio of asset changes has a positive effect on the likelihood of fraudulent financial statements. When financial stability and profitability are threatened by the economic, industrial and operational circumstances of the operating entity, managers face the pressure to commit fraud ([13] et al., 2008).

The results of this study are not in line with research conducted [8] (2012) which shows that the financial stability variables proxied with the ratio of changes in total assets have no effect on financial statement fraud. The insignificant results on the results of the study of financial stability variables proxied with the ratio of total asset changes have no significant effect on the financial statement fraud that if the assets of the company increases it causes some possibilities, one of which is the company trying to improve the outlook of a good company one of them by manipulating information assets owned or companies follow the existing rules and try to avoid fraud in the financial statements this is proven by the results of research even though the results there is no effect, but the value of the negative constant means that the greater the company's assets the smaller the fraud occurs, then it does not affect the financial statements of Fraud that will occur.

#### **Pressure variables that include external pressure that had a possible Fraudulent Financial Statement**

Based on the regression result, the pressure variable which includes the external pressure proxied with the LEV leverage ratio shows the coefficient of 0.041 with the significance value of 0.972 which, when compared with the 0.05 significance level has a large value, so the first alternative hypothesis includes external pressure proxied by LEV in this study was rejected. This study proves that the pressure variable that include external pressure proxied by LEV have no significant effect on the possibility of fraudulent financial statement. This is because companies with debt agreements are motivated to earn profit manipulation when the leverage level is high. So management does not manipulate accounting figures to avoid of the loan agreement.

The results of this study are in line with the research conducted by [14] (2012) which states that the ability of the company in fulfilling its obligations (LEV) does not affect the fraud financial reporting. The reason this finding does not support the hypothesis is because external pressure is not a strong factor for someone to commit fraud reporting finance.

Not entirely management is experiencing external pressure when it fulfills its obligations. They have an obligation to fulfill their debt, but profit manipulation is not the only way to fulfill that obligation. They are more trying to improve their performance in order to generate good profits to meet its obligations.

In addition Laras (2011) revealed that the tendency of companies on fraud with low leverage characteristics is more likely due to the current creditors do not consider again the amount of leverage generated, but there are other considerations such as the level of trust or good relationships between the company and creditors quoted by [12] (2013).

#### **Variable pressure that includes financial targets to the possibility of Fraudulent Financial Statement**

Based on the regression results, the pressure variable which include financial targets proxied by the asset return ratio (ROA) shows the coefficient of -0.986 with a significance value of 0.600 which, when compared with 0.05 significance level has a great value, so the first alternative hypothesis that includes financial targets proxied by asset return (ROA) ratio in this study was rejected. This study proves that the pressure variable that include financial targets proxied by ROA have no significant effect on the possibility of fraudulent financial statement. This is because ROA is the ratio used to measure the ability of management in obtaining profit (profit) as a whole. The greater the ROA, the greater the level of profit achieved by the company and the better the company's position in terms of asset use. So companies with a large ROA and earn profits or profitability are not motivated to earn profit manipulation because management performance will be seen by stakeholders of ROA obtained. So management does not manipulate the accounting figures to make their performance look good in the eyes of stakeholders and management will get rewards.

The results of this study are in line with that done by [4] (2012). The reason this finding does not support the hypothesis is that the ROA ratio used in this study is used for short-term purposes, whereas managers also have to think about long-term programs in order to increase the company's overall profit ([4], 2012). Most short-term goals of this company are often less able to generate profits for the company as a whole, therefore the company should review whether the goals it creates can produce an overall profit or not for the sustainability of the company.

The results of this study are not in line with the research conducted by Martantya (2013) and [8] (2012) mentioned that the high level of previous year's ROA shows high profitability of the company and makes the profit targets to be earned in the next year by the company is also high ([8], 2012). Such conditions will provide a demand to management to achieve profit targets that are at least the same as the profits obtained in previous years, so that makes management encouraged to commit a fraudulent financial statements.

#### **Opportunity variables are proxied by ineffective monitoring to the possibility of Fraudulent Financial Statement**

Based on the regression results, the opportunity variables include ineffective monitoring proxied by the proportion of independent board commissioners (IND) showed a coefficient of -1.679 with a significance value of 0.419 which compared with the 0.05 significance level has a large value, so the second alternative hypothesis that includes ineffective monitoring which is proxied by the proportion of the number of independent board of commissioners (IND) in this study was rejected. This study proves that the opportunity variables include ineffective monitoring proxied by the proportion of the number of independent board of commissioners (IND) have no significant effect on the possibility of fraudulent financial statement. This is because the function of independent commissioners as a function of control over management actions not yet optimal. Independent board of commissioners by the company may only be done for regulatory fulfillment only, but not intended to enforce good corporate governance (GCG) in the mechanism of prevention of misstatement of financial reporting.

The results of this study are in line with the results of the Asian Development Bank survey in Boediono (2005) that strong control of the company's founders and majority ownership makes the board of commissioners not independent and the oversight function that should be the responsibility becomes ineffective. There is the possibility of placement or addition of board members from outside the company merely fulfill formal requirements, while the majority shareholder (controller / founders) still plays an important role so that the performance of the board does not increase even can decrease.

### **The rationalization variable is proxied by the change of auditor against the possibility of Fraudulent Financial Statement.**

Based on the regression result, the rationalization variables proxied by the auditor turn (AUDCHANGE) showed the coefficient of 0.408 with the significance value of 0.268 which compared with the 0.05 significance level has a great value, so the third alternative hypothesis includes the rationalization variables proxied by the auditor turnover (AUDCHANGE) in this study was rejected. This study proves that the rationalization variables proxied by auditor turnover (AUDCHANGE) have no significant effect on the possibility of fraudulent financial statement.

The replacement of the auditor in fact does not become a rationalization (justification for his actions and the belief that his actions will not be detected) for the perpetrators of fraud to manipulate the company's financial statements. This is possible because the principals feel that although the auditor changes, the ability of the new auditor cannot be doubted. An auditor certainly has a lot of experience in performing audit tasks in similar companies. Researchers can see this from the existence of a number of auditor names that not only audit one company, but also in other similar companies, but not in the same year. Thus, in the event of auditor turnover, users do not have to worry that it will increase the risk of fraudulent financial statements. But with a positive constant value, it can

be a consideration for stakeholders to be more careful when there is a change of auditors.

This is consistent with research conducted by Kusumawardhani (2012), [13] (2008) and Kurniawati and Raharja (2011) where auditor turnover has no significant effect on the fraud risk level in its financial statements. But the results of this study successfully contradicted the research of [7] (2009) who found a significant influence of external auditor turning variables on the tendency of financial statement fraud within the company.

## V. CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS

### A. *Conclusions*

Based on the results of hypothesis analysis and testing it can be concluded that the effect on financial reporting fraudulent (fraudulent financial statement) is the financial stability proxied with the ratio of total asset change (AGROW). Other variables such as external pressure, financial targets, ineffectiveness of supervision and auditor turnover cycle have no effect on fraudulent financial statement.

### B. *Limitations*

The observation period of this study is only 3 years, i.e. 2012-2014 so that the sample obtained only as many as 47 companies. The sample company is limited to a manufacturing company listed on the Indonesia Stock Exchange, so it cannot observe and explain the effect of fraudulent financial statements in other industry sectors. The independent variables in this study only explain 10.6% of their influence on fraudulent financial statement indication, while 89.4% is explained by other variables outside this research model.

### C. *Suggestion*

#### 1. Operational Suggestions

- For the auditor, the results of this study are expected to be followed up as considerate in conducting an audit of the attached company.
- For manufacturing companies, in order to improve the function of independent commissioners and audit committees so as to assist in conducting objective oversight of the company's condition.
- For users or users of financial statements should be able to apply the level of accuracy in the understanding of financial statements in order to understand the financial statements are presented fairly in accordance with generally accepted accounting principles.

#### 2. Operational Suggestions

- For further research is expected to develop research sample in the form of agriculture sector, mining, property and real estate, infrastructure, utility and transportation, finance and trade of services and

investment can be enlarged or reproduced that not only focus on one sector only.

- It is hoped for further researchers to be able to develop other variables outside of this research such as foreign ownership, multi board of directors, special party transactions, managerial ownership and others.

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