

Fraud Diamond Analysis in Detecting Fraudulent Financial Statement with Institutional Ownership as a Moderation Variable (Empirical Study of Mining Sector Companies Listed on the Indonesia Stock Exchange (IDX) in 2019-2021)

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ABSTRACT

This research was conducted with the aim of analyzing the impact of diamond fraud on fraudulent financial statements with institutional ownership as a moderation variable. This research uses quantitative methods with descriptive and verification approaches. The data used in this research is secondary data that comes from the company's annual financial statements. All data is obtained from the official website of the Indonesia Stock Exchange, namely www.idx.co.id, and the company's official website. The population in this study is the entire mining sector companies listed on the Indonesia Stock Exchange from 2019-2021 with a total population of 43 companies. Sample determination uses purposive sampling techniques so that the number of samples in this study is 16 samples of the company. The results of the analysis of data obtained in this study showed that the pressure and opportunity variables had a significant influence in detecting fraud in financial statements while the rationalization and capability variables did not have a significant impact in the detection of fraud. The study also showed that if the variables pressure, opportunity, rationalization, and capacity moderate institutional ownership in general, strengthens diamond fraud against the detection of fraudulent financial reporting.

Keywords: Fraudulent Financial Statements, Fraud Diamond, Institutional Ownership

1. INTRODUCTION

In general, companies listed on the Indonesia Stock Exchange are required to publish their financial reports to the public according to a certain period. The published reports should contain information that is as transparent as possible as a form of the company's accountability to financial report users. The Indonesian Institute of Accountants (IAI) stipulates that financial reports are prepared based on Indonesian Accounting Standards (SAK). In PSAK No. 1, financial reports are a structured presentation of the financial position and performance of an entity. Based on PSAK No.1 Year 2018, the purpose of financial reports is to provide information regarding the financial position, financial performance, and cash flow of an entity that is useful for most financial report users in making economic report decisions. Financial reports not only present information on the amount of profit or loss and financial position but also cover the performance of the company in a certain period. This information is then used by the main financial report users as a consideration for making decisions. According to the Financial Accounting Standards Board (FASB), the main financial report users are shareholders, other investors, and creditors.



Figure 1. 1 Fraud Worldwide
 (Sources: ACFE Global, 2022)

Association of Certified Fraud Examiners (ACFE) defines fraud as “*Fraud is an intentional untruth or dishonest scheme used to take deliberate and unfair advantage of another or group of persons it included any mean, such cheats another.*” The next is classified into 3 (three) types, commonly known as the "Fraud Tree". The three branches within the fraud tree are Corruption, Asset Misappropriation, and Fraudulent Financial Statement. There was a total of 2,110 fraud cases from 133 countries, including Indonesia, resulting in losses totaling approximately 3.6 billion USD (ACFE, 2022). The survey results are presented in the form of the Report to The Nations (RTTN) for the year 2022, showing that fraud cases in the form of asset misappropriation have the highest frequency at 86%, followed by corruption at 43%, and the lowest frequency of cases, at 10%, is found in financial statement fraud.

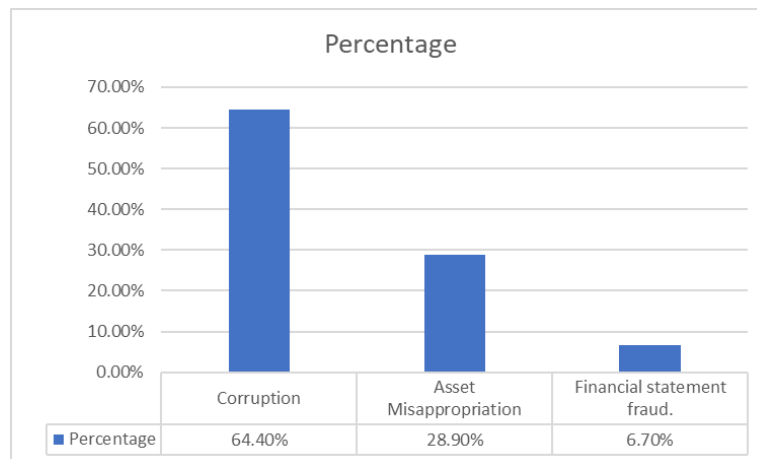


Figure 1. 2 The Most Common Types of Fraud in Indonesia
 (Sources: ACFE Indonesia, 2019)

Similarly, according to the survey results based on data processed by ACFE Indonesia in 2019, corruption is identified as the most detrimental form of fraud in Indonesia. In sequence, out of 167 cases, accounting for 64.4%, stated that corruption is the most damaging fraudulent activity in Indonesia. Following that, 50 cases, equivalent to 28.9%, indicated that misappropriation of state and company assets resulted in losses. Meanwhile, the third highest with 22 cases, accounting for 6.7%, reported financial statement fraud causing losses

Losses (IDR-Billion)	Corruption	Financial Statement Fraud	Asset Missappropriation
Under 10	48.1%	67.4 %	63.6%
10-50	4.2%	2.9%	3.3%
50-100	8.4%	5.4%	8.8%
100-500	11.7%	6.7%	9.6%
500-1.000	10.9%	6.7%	2.9%

1.000-5.000	5.9%	3.8%	3.8%
5.000-10.000	5.4%	2.1%	3.4%
Over 10.000	5.4%	5.0%	4.6%

Figure 1.3 Losses Due To Fraud
 (Sources: ACFE Global, 2022)

Based on the survey results from ACFE Global and Indonesia, despite having the lowest frequency of cases, financial statement fraud has the highest average total impact of losses, amounting to \$954,000, followed by corruption at \$200,000, and asset misappropriation at \$100,000.

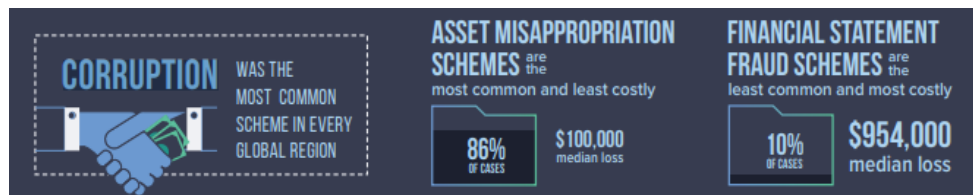


Figure 1. 4 The Most Detrimental Fraud-Related Losses in Indonesia
 (Sources: ACFE Global, 2022)

The financial statement fraud's losses in Indonesia also show a similar outcome, although it falls under the less frequent types of fraud in Indonesia, accounting for only 6.7% of cases, and the majority of incidents involve amounts below Rp10 million. However, this type of fraud has the highest number of occurrences, ranking first at 67.4%, compared to corruption and asset misappropriation.

Financial statement fraud is often committed because every company fundamentally desires its financial reports to depict the company's condition in the best possible light, showing profitability. This motivates companies to engage in fraudulent activities or manipulate their financial statements to make it seem as though the company is doing well, resulting in biased and misleading information for stakeholders. Financial reporting fraud, as defined in PSA (Statement on Auditing Standards) No. 70, involves intentionally misstating or omitting amounts or disclosures in the financial statements to deceive financial statement users, causing material misstatements under generally accepted accounting principles.

The results from the ACFE's research, titled "Report to The Nations 2019," reveal that the mining industry ranks third among the organizations affected by fraud at 5.0%. This is evident from cases of financial statement fraud that occurred in the mining sector, including the case of PT Timah (Persero) Tbk in 2016. PT Timah Tbk is a mining company specializing in tin and is one of the world's largest tin producers. The company was sued by the Ikatan Karyawan Timah (IKT) due to a significant increase in profits since 2013, soaring from Rp 263 billion to Rp 2.3 trillion in 2016. Despite such financial performance, PT Timah Tbk released an annual report in the first semester of 2015, claiming that their strategies and efficiencies had resulted in positive performance. However, in reality, the company incurred losses of Rp 59 billion from its operations.

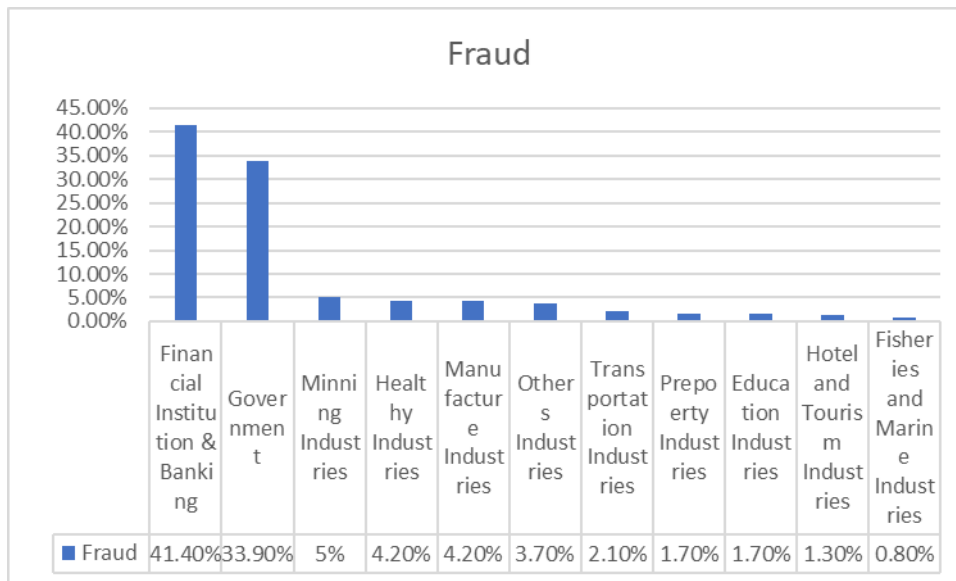


Figure 1. 2 Industries Most Affected by Fraud
 (Sources: ACFE Indonesia, 2019)

Furthermore, the case of PT Cakra Mineral Tbk (CKRA) in 2016 was reported to the Indonesia Stock Exchange (IDX) and the Financial Services Authority (OJK) due to embezzlement, accounting manipulation, and issues related to false disclosures directed by the president director. The CKRA board intentionally inflated CKRA's asset value by falsely consolidating financial statements and exaggerating the capital contributed from two mines. As a result, investors were unable to make informed investment decisions and suffered significant losses due to the misleading and inaccurate disclosures.

2. LITERATURE REVIEW

In preventing fraud, especially financial statement fraud, efforts and perspectives are required to review and detect fraudulent activities. There are several theories that explain the analytical methods used to detect potential financial statement fraud, one of which is the fraud triangle introduced by Cressey in 1953. According to Cressey (1953), there are three factors that lead someone to commit fraudulent acts: pressure, opportunity, and rationalization. However, according to Wolfe and Hermanson (2004), there is an additional factor that cannot be ignored, which is capability. These four factors are often referred to as the fraud diamond.

The difference between the fraud triangle and the fraud diamond lies in the addition of one variable in the fraud diamond, which is capability. According to Statements on Auditing Standard No.99 (AICPA 2022), the pressure variable can be proxied by financial stability, external pressure, financial targets, and financial need. The opportunity variable can be proxied by the nature of the industry, ineffective monitoring, and effective monitoring. Meanwhile, rationalization and capability are variables that are difficult to measure.

Many studies have attempted to prove the validity of both theories, but there are still differences in the results among different studies. Therefore, the author attempts to conduct further research to validate both theories in testing the factors that can influence financial statement fraud. The researcher uses the proxies from the fraud diamond as independent variables, namely pressure proxied by financial stability, opportunity proxied by ineffective monitoring, rationalization proxied by change in auditor, and capability proxied by changes in directors. The researcher chooses the fraud diamond as the factor to be used in detecting financial statement fraud

compared to other fraud theories because it is considered more comprehensive, new, and encompasses all variables in the fraud triangle.

3. METHODOLOGY

The research method employed is descriptive and verification. The descriptive method is utilized in this study to describe pressure, opportunity, rationalization, institutional ownership, and financial statement fraud in mining sector companies listed on the Indonesia Stock Exchange from 2019 to 2021. On the other hand, the verification method is used to analyze the influence between the independent variables, which are proxies from the fraud diamond theory, and the dependent variable, which is financial statement fraud, using moderation variables as proxies for institutional ownership.

	$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 (X_1 * Z) + \beta_6 (X_2 * Z) + \beta_7 (X_3 * Z) + \beta_8 (X_4 * Z) + \epsilon$	(1)
where,		
	<p>Common Effect Model :</p> $Y_{it} = \alpha + \beta_j X_{it}^j + \epsilon_{it}$ <p>Fixed Effect Model :</p> $Y_{it} = \alpha_i + \beta_j X_{it}^j + \sum_{i=2}^n \alpha_i D_i + \epsilon_{it}$ <p>Random Effect Model :</p> $Y_{it} = \alpha + \beta_j X_{it}^j + \epsilon_{it}; \epsilon_{it} = u_i + V_t + W_{it}$	(2)

Chow Test

The Chow test is a test used to determine which model is more suitable for estimating panel data, between common effect and fixed effect. The basis for the Chow test decision-making is as follows:

H₀ : Common Effect Model

H₁ : Fixed Effect Model

Criteria:

- a. If the probability value < 0.05, then H₀ is not supported, indicating that the fixed effects model is selected for the research, and the analysis proceeds to the Hausman test.
- b. If the probability value > 0.05, then H₀ is supported, suggesting that the common effects model is chosen for the research, and the analysis continues with the Lagrange multiplier test.

Hausman Test

The Hausman test is conducted to determine which model is better between random effects and fixed effects. The hypotheses in the Hausman test are as follows:

H₀ : Random Effect Model

H₁ : Fixed Effect Model

Criteria:

- a. If the probability value < 0.05, then H₀ is not supported, indicating that the fixed effects model is selected for the research.

- b. If the probability value > 0.05 , then H_0 is supported, suggesting that the random effects model is chosen for the research, and the analysis continues with the Lagrange multiplier test.

The Lagrange Multiplier

The Lagrange multiplier test is used to determine the best model between the common effects model and the random effects model. The hypotheses used in this study are as follows:

H_0 : Common Effect Model

H_1 : Random Effect Model

Criteria:

- a. If the probability value < 0.05 , then H_0 is not supported, indicating that the random effects model is selected for the research.
- b. If the probability value > 0.05 , then H_0 is supported, suggesting that the common effects model is chosen for the research.

Assumption Test

The Multicollinearity Test.

A good regression model should not have correlation among independent variables. To detect the presence of multicollinearity in a regression model, the following criteria are used:

- a. If the value of Centered VIF (Variance Inflation Factor) ≥ 10 , then there is a multicollinearity problem.
- b. If the value of Centered VIF ≤ 10 , then there is no multicollinearity issue.

Heteroskedasticity Test

The Glejser Test will be used for the heteroskedasticity test in this study. The following decision-making criteria will be employed in this test:

- a. If the probability value for t-statistic < 0.05 , then H_0 is accepted, indicating the presence of heteroskedasticity.
- b. If the probability value for t-statistic > 0.05 , then H_0 is rejected, indicating the absence of heteroskedasticity.

Coefficient of Determination (R^2)

The coefficient of determination (R^2) takes values between 0 and 1. A small R^2 value indicates that the independent variables' ability to explain the dependent variable is very limited. A value close to one indicates that the independent variables provide almost all the information needed to predict the variation of the dependent variable. In other words, the overall variation of variable Y can be explained by variable X.

Hypothesis Test

Model Fit Test (F-Test)

The F-test can be conducted by examining the F-significance in the regression output with a significance level of 0.05 ($\alpha=5\%$). If the probability value is greater than α , it indicates that the regression model is not fit. On the other hand, if the probability value is smaller than α , it means that the regression model is fit or suitable for use.

Partial Test (t-Test)

The t-test can be conducted by comparing the significance level with the value $\alpha = 0.05$. The conclusion is made based on the significance value from the t-test results on the independent variable with the following criteria:

- a. If the probability value > 0.05 , then H_0 is not significant.
- b. If the probability value < 0.05 , then H_0 is significant.

4. EMPIRICAL RESULTS

Descriptive Statistical Analysis

Descriptive statistical analysis is employed to gain an understanding of the portrayal of potential financial statement fraud (F-Score) as the dependent variable, and financial stability (ACHANGE), ineffective monitoring (BDOUT), change in auditor (AUDCHANGE), and board of directors changes (DCHANGE) as independent variables, with institutional ownership (INST) as the moderating variable. The data can be depicted through a table presenting the results of descriptive statistical analysis, as follows:

Table 1: The results of descriptive statistical analysis

Variable	N	Minimum	Maximum	Mean	Std. Deviation
F-Score	48	-11.49400	7.115000	-0.617375	2.846110
ACHANGE	48	-5.747186	2.557347	-0.213981	1.229223
BDOUT	48	0.167000	0.800000	0.358250	0.145531
AUDCHANGE	48	0	1	0.083333	0.279310
DCHANGE	48	0	1	0.375000	0.489246
INST	48	0.111000	2.505000	0.629521	0.361756

Sources: Processed data, 2023

Analysis of Panel Data Regression

Chow Test

The Chow test is conducted to determine the most appropriate model between the Common Effects Model and the Fixed Effects Model. The first step involves data processing using the Common Effects Model (CEM) approach, which straightforwardly combines all time series and cross-sectional data, followed by model estimation using the Ordinary Least Square (OLS) method. The results of the data processing using the Common Effects Model are as follows:

Table 2: The results of the descriptive statistical analysis

COMMON EFFECT MODEL			
Variable	Coefficient	t-Statistic	Prob.
C	-1.766852	-2.600320	0.0128
ACHANGE	0.895517	10.98298	0.0000
BDOUT	3.404776	2.381248	0.0219
AUDCHANGE	0.372853	0.522784	0.6039
DCHANGE	-0.422694	-1.034261	0.3069
INST	0.735098	0.320543	0.1938
Adjusted R-squared			0.776981

Sources: Processed data, 2023

The second step involved data processing using the Fixed Effect Model (FEM) approach to compare it with the Common Effect Model method. The results of the data processing using the Fixed Effect Model are presented as follows:

Table 3: The results of the Fixed Effect Model (FEM)

FIXED EFFECT MODEL			
Variable	Coefficient	t-Statistic	Prob.
C	-2.009067	-1.805935	0.0821
ACHANGE	1.771187	6.802296	0.0000
BDOUT	5.704818	1.969668	0.0592
AUDCHANGE	-0.014224	-0.014086	0.9889
DCHANGE	-0.643196	-1.238722	0.2251
INST	-0.048727	-0.051644	0.9592
Adjusted R-squared			0.751356

Sources: Processed data, 2023

The results of the Chow test in this study are presented in the table below:

Table 4: The results of the Chow Test

COMMON EFFECT MODEL			
Effect Test	Statistic	d.f.	Prob.
Cross-section F	0.711432	(15,27)	0.7522
Cross-section Chi-square	15.987187	15	0.3829

Sources: Processed data, 2023

Based on the results of the Chow test in Table 6, the Cross-section Chi-square probability value is 0.3829, which can be interpreted as having a probability greater than 0.05. Therefore, H_0 is supported, and the selected model is the Common Effect Model.

Hausman Test

After conducting the Chow test, the next step is to process the data using the Random Effect Model (REM) to compare it with the Fixed Effect Model (FEM). The results of the data processing using the Random Effect Model are as follows:

Table 5: The results of the Random Effect Model (REM)

RANDOM EFFECT MODEL (REM)			
Variable	Coefficient	t-Statistic	Prob.
C	-1.766852	-2.462683	0.0180
ACHANGE	1.895517	10.40164	0.0000
BDOUT	3.404776	2.255206	0.0294
AUDCHANGE	0.372853	0.495112	0.6231
DCHANGE	-0.422694	-0.979517	0.3329
INST	0.735098	1.250645	0.2180
Adjusted R-squared			0.776981

Sources: Processed data, 2023

Table 6: The results of the Hausman Test

UJI HAUSMAN			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f	Prob.
Cross-section random	4.381312	5	0.4959

Sources: Processed data, 2023

Based on the results of the Hausman test in Table 12, the cross-section random probability value is 0.4959, which can be interpreted as the probability value being greater than 0.05. Therefore, H_0 is supported, and the most appropriate model to use is the random effects model. Considering the results of the Chow test and Hausman test, no model is superior

between the two. Therefore, the model selection process should continue using the Lagrange multiplier test.

Lagrange Test

Table 7: The results of the Lagrange Multiplier

LAGRANGE MULTIPLIER TEST			
Nul (no rand.effect) Alternative	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	0.924479 (0.3363)	0.198890 (0.6556)	1.123369 (0.2892)

Sources: Processed data, 2023

Based on the results of the Lagrange multiplier test in Table 13, the Breusch-Pagan probability value is 0.2892, which can be interpreted as the probability value being greater than 0.05. Therefore, H0 is supported, and it can be interpreted that the most appropriate model to use is the common effects model.

Classic Assumption Test

The testing of classical assumptions consists of tests for normality, multicollinearity, heteroskedasticity, and autocorrelation. Classical assumption testing is employed to prevent or minimize biases in the results of conducted research.

- **Multicollinearity Test**

The multicollinearity test is used to examine the correlation among independent variables. The multicollinearity test is conducted using the method of pairwise correlations. Below are the data presenting the results of the multicollinearity test:

Table 8: Multicollinearity Test Results

MULTICOLLINEARITY TEST			
Variable	Coefficient Variance	Uncensored VIF	Centered VIF
C	0.461686	12.26713	NA
ACHANGE	0.029786	1.207163	1.170925
BDOUT	2.044410	8.098163	1.126500
AUDCHANGE	0.508666	1.126283	1.032426
DCHANGE	0.167029	1.664250	1.040156
INST	0.309874	4.317930	1.055043

Sources: Processed data, 2023

Based on the processed data presented in Table 14, it can be observed that the Centered VIF values for all independent variables are less than 10. Therefore, it can be concluded that the regression model does not suffer from multicollinearity issues.

- **Heteroskedasticity Test**

A heteroskedasticity test is conducted on a regression model to determine whether there is heterogeneity of variance in the residuals across all observations. If the probability value on Obs*R-Squared is greater than the significance level of 0.05, then there is no heteroskedasticity in the regression model. Below are the data presenting the results of the heteroskedasticity test:

Table 9: Heteroskedasticity Test Results

HETEROSKEDASTICITY TEST			
Obs*R-squared			4.340485

Sources: Processed data, 2023

Based on Table 15, it is evident that the Obs*R-Squared value is greater than 0.05. Thus, it can be concluded that the regression model does not exhibit heteroskedasticity.

Analysis of Common Effects Model Regression Results

In this study, a panel data regression approach was applied using common effect model, fixed effect model, and random effect model with Eviews 12. Model selection tests, including Chow test, Hausman test, and Lagrange multiplier test, indicate that the most suitable regression model for this research is the common effect model. The regression results using the common effect model are presented below in Table 16:

Table 10: Common Effects Model Regression Results

COMMON EFFECT MODEL			
Variable	Coefficient	t-Statistic	Prob.
C	-5.570223	-3.285662	0.0022
ACHANGE	0.799855	2.296060	0.0273
BDOUT	15.00826	3.536504	0.0011
AUDCHANGE	-2.414529	-1.483818	0.1461
DCHANGE	-3.294889	-3.131989	0.0033
INST	6.691269	2.586426	0.0137
ACHANGE*INST	1.680718	3.561075	0.0010
BDOUT*INST	-18.49300	-2.814641	0.0077
AUDCHANGE*INST	5.037426	1.582393	0.1218
DCHANGE*INST	4.828933	2.951535	0.0054

Sources: Processed data, 2023

Based on the results of the Common Effect Model regression shown in Table 16 above, the regression equation between the dependent variable (F-Score) and the independent variables (ACHANGE, BDOUT, AUDCHANGE, and DCHANGE) can be expressed as follows:

$$\begin{aligned}
 F - Score = & -5.570223 + 0.799855\beta_1X_1 \\
 & + 15.00826\beta_2X_2 - 2.414529\beta_3X_3 - 3.294889\beta_4X_4 \\
 & + 1.680718\beta_5(X_1 * Z) - 18.49300\beta_6(X_2 * Z) \\
 & + 5.037426\beta_7(X_3 * Z) + 4.828933\beta_8(X_4 * Z) + \varepsilon
 \end{aligned}$$

Coefficient of Determination (R²) Test

In the R² test, if the value of adjusted R-square approaches 1, it indicates that the independent variables provide the required information for the dependent variable. On the other hand, if the value of adjusted R-square approaches 0, it means that the results from those independent variables have limited explanatory power for the dependent variable. The table below shows the results of the coefficient of determination test in this study:

Table 11: Coefficient of Determination Results

R-squared			0.869763
Adjusted R-Squared			0.838918

Sources: Processed data, 2023

Based on Table 11, the test results for the coefficient of determination indicate that the Adjusted R-Squared value is 0.838918 or 83.89%. This result implies that 83.89% of the variation in the potential financial statement fraud can be explained by the variables pressure, opportunity, rationalization, capability, pressure moderated by institutional ownership, opportunity moderated by institutional ownership, rationalization moderated by

institutional ownership, and capability moderated by institutional ownership, while the remaining 16.11% is explained by other factors not included in this research model.

Hypothesis Testing

- F Test

The F test is conducted to determine whether all independent variables collectively have a significant influence on the dependent variable. The results of the F test are presented in the table below

Table 12: F Test Results

F TEST			
F-statistic			28.19735
Prob(F-statistic)			0.000000

Sources: Processed data, 2023

From Table 12, it is observed that the calculated F value is 28.19735, and the significance value is 0.000000, which is less than 0.05. Therefore, it can be concluded that the independent variables are collectively significant for the dependent variable.

- t Test

The t test is performed by examining the probability values and comparing them with the significance level for each independent variable with respect to the dependent variable. The decision-making basis for the t test is as follows:

- If the probability value > 0.05 , then H_0 (null hypothesis) has no significant effect.
- If the probability value < 0.05 , then H_0 (null hypothesis) has a significant effect.

The table below presents the results of the t-statistics test in this study:

Table 13: t Test Results

T TEST			
Variable	t-Statistic	Prob.	Description
C	-3.285662	0.0022	
ACHANGE	2.296060	0.0273	Significant
BDOUT	3.536504	0.0011	Significant
AUDCHANGE	-1.483818	0.1461	Insignificant
DCHANGE	-3.131989	0.0033	Significant
INST	2.586426	0.0137	Significant
ACHANGE*INST	3.561075	0.0010	Significant
BDOUT*INST	-2.814641	0.0077	Significant
AUDCHANGE*INST	1.582393	0.1218	insignificant
DCHANGE*INST	2.951535	0.0054	Significant

Sources: Processed data, 2023

5. DISCUSSION

The Influence of Pressure on the Potential for Financial Statement Fraud

The results of hypothesis testing presented in table 4.16 show that pressure, proxies by financial stability calculated using the ratio of total asset changes (ACHANGE), has a coefficient of 0.799855 and a probability value of $0.0273 < 0.05$. From these results, it can be concluded that financial stability has a significant positive effect on the potential for financial statement fraud.

Unusual increases in assets may indicate that the company has engaged in fraud in its financial reporting, as exaggerating assets may create an impression of stability in the company.

Financial stability motivates management to manage the company to remain in a stable condition, as it increases the company's value, making it attractive to investors and creditors and building greater trust in the company. Consequently, under this pressure, management may resort to manipulating financial statements. These findings are consistent with studies conducted by Anggraini et al. (2019), Lestari and Henny (2019), and Zulfa and Tanusdjaja (2020), which found that financial stability significantly influences financial statement fraud. This suggests that changes in total assets can push management to commit fraud in financial reporting.

The Influence of Opportunity on the Potential for Financial Statement Fraud

The results of hypothesis testing presented in table 16 show that opportunity, proxies by ineffective monitoring calculated using the ratio of independent board of commissioners (BDOUT), has a coefficient of 15.00826 and a probability value of $0.0011 < 0.05$. From these results, it can be concluded that opportunity has a significant positive effect on the potential for financial statement fraud. This means that the higher the value of opportunity, the higher the likelihood of financial statement fraud. Therefore, it can be concluded that opportunity has an effect, and H₂ is supported.

These findings are consistent with studies conducted by Sembiring and Zulfiati (2020) and Lestari and Henny (2019), which found that ineffective monitoring has a significant positive effect on financial statement fraud. When a company has high opportunity, it can lead to financial statement fraud, characterized by a lack of oversight or inadequate internal controls. This can occur when management is dominated by a small group of individuals and there is ineffective monitoring over the board of directors.

The Influence of Rationalization on the Potential for Financial Statement Fraud

The results of hypothesis testing presented in table 16 show that rationalization, proxies by change in auditor (AUDCHANGE), has a coefficient of -2.414529 and a probability value of $0.1461 > 0.05$. From these results, it can be concluded that rationalization does not have a significant effect on the potential for financial statement fraud. The value indicates that the change in auditor does not provide evidence of management's attempt to engage in financial statement fraud. Therefore, it can be concluded that H₃ is not supported.

Auditor turnover may occur due to the completion of the contract with the audit firm or dissatisfaction with the previous audit firm's performance and a desire to lower the audit fee for the next period with a better-performing firm. These findings are consistent with studies conducted by Lestari and Henny (2019) and Imtikhani & Sukirman (2021).

The Influence of Capability on the Potential for Financial Statement Fraud

The hypothesis testing results presented in Table 4.16 show that capability, represented by director changes (DCHANGE), has a coefficient of -3.294889 and a probability value of $0.0033 < 0.05$. From these results, it can be concluded that capability has a significant negative effect on the potential for financial statement fraud. This means that the more negative the capability

value, the higher the likelihood of financial statement fraud. Therefore, it can be concluded that H4 is not supported.

This research found that if there are no changes in directors in a company, the potential for financial statement fraud in that company will increase. It can be concluded that without changes in the company's directorship, the board of directors may collaborate in committing financial statement fraud by utilizing their capabilities.

Institutional Ownership Weakens the Influence of Pressure, Opportunity, Rationalization, Capability on the Potential for Financial Statement Fraud

The hypothesis testing results presented in Table 4.16 show that when pressure is moderated by institutional ownership, it does not have a significant effect on detecting financial statement fraud, with a coefficient of 1.680718 and a probability value of $0.0010 < 0.05$. This means that institutional ownership does not moderate the influence of pressure on financial statement fraud, and the presence of institutional ownership can strengthen the level of pressure on a company, leading to the potential for financial statement fraud. This is because institutional ownership is not the majority owner, and thus, they may not be able to effectively monitor the manager's performance.

Opportunity, when moderated by institutional ownership, has a significant effect on detecting financial statement fraud, with a coefficient of -18.49300 and a probability value of $0.0077 < 0.05$. This means that institutional ownership can moderate the influence of opportunity on financial statement fraud, and the presence of institutional ownership can weaken the level of opportunity in a company, leading to the potential for financial statement fraud. Higher institutional ownership can prevent financial statement fraud since principals can monitor or supervise agents to act in line with the interests of the owners and participate in decision-making.

Rationalization, when moderated by institutional ownership, does not have a significant effect on detecting financial statement fraud, with a coefficient of 5.037426 and a probability value of $0.1218 > 0.05$. This means that institutional ownership does not moderate the influence of rationalization on financial statement fraud, and the presence of institutional ownership can strengthen the level of rationalization in a company. The lack of influence of institutional ownership in the rationalization relationship may be due to the fact that the level of institutional ownership in a company does not guarantee the replacement of auditors, possibly because institutional shareholders do not use their authority to intervene in the selection of audit firms.

Capability, when moderated by institutional ownership, has a significant effect on detecting financial statement fraud, with a coefficient of 4.828933 and a probability value of $0.0054 < 0.05$. This means that institutional ownership does not moderate the influence of capability on financial statement fraud, and the presence of institutional ownership can strengthen the level of capability in a company, leading to the potential for financial statement fraud. Institutional ownership cannot weaken capability because institutional holders are external parties, and the level of institutional ownership does not mean that they have full authority.

In conclusion, institutional ownership generally strengthens the fraud diamond concerning financial fraud, as evidenced by institutional ownership reinforcing pressure, rationalization, and capability while weakening opportunity.

6. CONCLUSION

The conclusion drawn from the analysis and discussion regarding the influence of pressure (ACHANGE), and opportunity (BDOUT) has a positive and significant impact on financial statement fraud. *Rationalization* (AUDCHANGE) has a negative and non-significant impact on financial statement fraud. Capability (DCHANGE) has a negative and significant impact on financial statement fraud. In general, institutional ownership strengthens the fraud diamond in relation to financial statement fraud.

Based on the research conclusion, the author recommends the company management is advised not to impose targets beyond the company's capabilities to reduce the pressure that may lead to manipulation of financial statements. Management needs to enhance the effectiveness of internal controls as a preventive measure against potential financial statement fraud. Potential investors should be cautious in analyzing the information provided by companies as a basis for making investment or funding decisions. It is advisable not to be easily lured by companies that present high profits and assets because they are more prone to financial statement manipulation.

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