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Fraud diamond analysis of financial statement fraud

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ABSTRACT

The purpose of this study is to determine Fraud Diamond Analysis of Fraud Financial Statements. The type of data used in this research is secondary data. The data used in this study were obtained from www.idx.co.id, the company's website and the Indonesian Capital Market Directory (ICMD). The population in this study is the financial statements of manufacturing companies listed on the Indonesia Stock Exchange for 2018-2020 and processed using the IBM SPSS application and analysis using a purposive sampling technique. Based on the results of the study, empirical facts were obtained in the form of: 1) There is a significant positive (unidirectional) influence between pressure on fraudulent financial statements; 2) There is a significant positive (unidirectional) effect between opportunity and financial reporting fraud; 3) There is a significant positive (unidirectional) effect between rationalization and fraudulent financial reporting; 4) There is a significant positive (unidirectional) effect between capability and financial statement fraud.

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INTRODUCTION

Financial statements are an important instrument in the operations of a company. The condition of the company financially can be reflected in a company's financial statements. Financial reports are the result of an accounting process that can be used as a means of communication between the financial data or operational activities of a company and certain parties who need data or the company's financial activities. Financial reports can also present the financial position of a company and the results that have been obtained by a company. Such things have become an impetus for companies to present their financial reports as well as possible.

The number of accounting scandals that have occurred is one of the reasons by committing fraud against financial statements. Therefore, the company uses the services of a public accountant to audit its finances which is expected to limit the practice of fraudulent financial statements, so that it is expected to increase public confidence in the company's financial statements. Each company will make every effort to present the best financial statements. This is what creates pressure for management to report positive financial results and causes management to do everything they can even take unethical actions so that financial reports always look good in the eyes of the public.

Financial reports that contain elements of fraud can result in a lowered level of confidence in the information presented therein because it can mislead investors and other users of financial statements. When there is a material misstatement in the financial statements, the information contained therein becomes irrelevant as a basis for decision making because the analysis performed is not based on actual information.

Cases of accounting scandals in recent years provide further evidence of audit failures having serious repercussions for the business community. The auditor as an examiner of financial reports is currently in the public spotlight. In the government sector itself external auditors are carried out by BPK auditors (Financial Audit Board), while in the private sector external auditors are carried out by KAP auditors (Public Accountant Offices), so that auditors working at BPK and KAP are required to act independently in carrying out their functions. But on the other hand, the auditor is not a guarantor (guarantor) for fraudulent financial statements, and is not responsible for detecting all fraud, but findings about the existence of material misstatements (materiality misstatement) in financial statements is the main objective of the audit (SAS 99).

According to (Cressey, 2019) through the fraud triangle theory, it is revealed that fraudulent financial statements are always followed by three conditions, namely pressure, opportunity and rationalization. According to SAS No. 99 and developed in a study explaining that the occurrence of fraud in financial statements can be caused by pressures such as financial stability, external pressure, personal financial need and financial targets. SAS No. 99 classifies opportunities that may occur in financial statement fraud into three categories, namely the nature of industry, ineffective monitoring and organizational structure. Meanwhile, rationalization is the most difficult part of the fraud triangle theory to measure.

Over time, the development of the fraud triangle theory continues to occur, where the first development was put forward by(Wolfer and Hermanson, 2019) with the term fraud diamond theory, which is a new view of fraud which is a refinement of the fraud triangle theory, in this theory adding one qualitative element that is believed to have a significant influence on fraud, namely capability. According to Wolfe and Hermanson (2004), fraud will not occur without the right people who have the ability to commit fraud. That way it can be said that the variable capability can be used as a factor to measure how much power a person has to commit fraud. However, until now it has been proven that there are still many gaps in the financial statements which can become space for management and certain individuals to commit fraud in financial reports.

There are several studies on fraud diamond theory conducted in Indonesia, including, according to (Umar, Partahi and Purba, 2020), the results of the research show that the pressure variable is proxied by financial stability, opportunity is proxied by the nature of industry, rationalization is proxied by change in auditors proved to have a positive effect on financial statement fraud, while the capability variable had no effect on financial statement fraud. According to Prayoga and Sudarmaji (2019), the research results prove that the pressure variable proxied by financial targets and opportunity proxied by ineffective monitoring has proven to have a positive effect on financial statement fraud, while the rationalization and capability variables have no effect on financial statement fraud.

According to (Fadilah and Wahidahwati, 2019), the results of the study proved that the opportunity variable proxied by organizational structure and capability proxied by change in director proved to have a positive effect on financial statement fraud, while the pressure and rationalization variables had no effect on financial statement fraud. According to Ayem and Astuti (2019), the results showed that the pressure variable proxied by the financial target proved to have a positive effect on financial statement fraud, while the opportunity, rationalization and capability variables had no effect on financial statement fraud.

According to Sunardi and Amin (2018), the results of the study prove that the pressure variable is proxied by financial targets, rationalization is proxied by total accrual assets and capability is proxied by change in director which has a positive effect on fraudulent financial

statements. The opportunity variable has no effect on fraudulent financial statements. According to Puspitadewi and Sormin (2018), the results of the study show that the rationalization variable proxied by total accrual assets has proven to have a positive effect on financial statement fraud, while the pressure, opportunity and capability variables have no effect on financial statement fraud.

According to Yesiariani and Rahayu (2017), the results of the study showed that the pressure variable proxied by external pressure and the rationalization variable proxied by total accrual assets proved to have a positive effect on financial statement fraud, while the opportunity and capability variables had no effect on financial statement fraud. According to Annisya, Lindrianasari and Asmaranti (2016), the research results show that the pressure variable proxied by financial stability has a positive effect on financial statement fraud, while the opportunity, rationalization and capability variables have no effect on financial statement fraud.

The implication of this study is that financial user reports can use changes in the total inventory ratio as a detector of financial statement fraud, because in this study the ratio was proven to be used as an indicator of fraudulent financial statements. whereas in 2019 Indonesia was shocked by the revelation of a scandal involving PT. Garuda Indonesia, a state-owned airline company with a well-known public accounting firm, namely the Public Accounting Firm (KAP) Tanubrata Sutanto Fahmi Bambang & Partners (Member of BDO International). Garuda Indonesia's management manipulated the financial statements for the 2018 financial year which posted a net profit of USD 809.85 thousand or equivalent to IDR 11.33 billion, where this figure jumped sharply compared to the 2017 financial report which suffered a loss of USD 216.5 million or equivalent to IDR 3.03 trillion (exchange rate of IDR 14,000 per USD).

From the description that has been described above, there are still studies showing inconsistent results, therefore, the researcher is interested in conducting another study to prove the factors of fraudulent financial statements based on the fraud diamond theory and the aim is to provide evidence of the effect of pressure on fraudulent financial statements. , the effect of opportunity on fraudulent financial statements, the effect of rationalization on fraudulent financial statements, the effect of capability on fraudulent financial statements.

RESEARCH METHOD

This research was obtained from the annual financial report data of manufacturing companies listed on the IDX during 2018-2020. The accounting process in manufacturing companies is longer than other types of companies, so the potential for fraud tends to be greater. Starting from purchasing raw materials, processing these raw materials into finished goods or what is called the production process, until the goods are in the hands of consumers. The independent variables in this study are the components contained in the fraud diamond factor, namely pressure, opportunity, rationalization and capability. The type of data used in this research is secondary data. The data used in this study were obtained from www.idx.co.id, the company's website and the Indonesian Capital Market Directory (ICMD). The sampling technique in this study used purposive sampling. In this study, data analysis was processed using the IBM SPSS application (Sugiyono, 2018).

Table 1. Variaeble operationalization

No	Variable	Measuring instrument
1	*Financial Statement Fraud*	According to Dechow et al. (2009) Using the F-Score Model $F\text{-}Score = Accrual\ Quality + Financial\ Performance$ ▪ Calculating *Accrual Quality* $RSST\ Accrual = \frac{(\Delta WC + \Delta NCO + \Delta FIN)}{Average\ Total\ Assets}$

		▪ Calculating *Financial Performance* $Financial\ Performance = Change\ in\ Receivables + Change\ in\ Inventories + Change\ in\ Cash\ Sales + Change\ in\ Earnings$
2	*Pressure* yang diproksikan *Financial Stability*	According to Skousen and Twedt (2009) Using the ratio of changes in total assets $ACHANGE = \frac{(Total\ Assets_{t} - Total\ Assets_{t-1})}{Total\ Assets_{t-1}}$
3	*Opportunity* yang diproksikan *Nature Of Industry*	According to Susianti and Yasa (2015) Using the ratio of changes in receivables $REC = \frac{Receivable_{t}}{Sales_{t}} - \frac{Receivable_{t-1}}{Sales_{t-1}}$
4	*Rationalization* yang diproksikan *Change In Auditor*	According to Skousen and Twedt (2009) Using dummy variables If there is a change in the public accounting firm then it is given code 1, otherwise if there is no change in the public accounting firm then it is given code 0.
5	*Capability* yang diproksikan Change *in Director*	According to Wolfe and Hermanson (2004) Using dummy variables If there is a change in the company's directors then it is given code 1, otherwise if there is no change in the company's directors then it is given code 0.

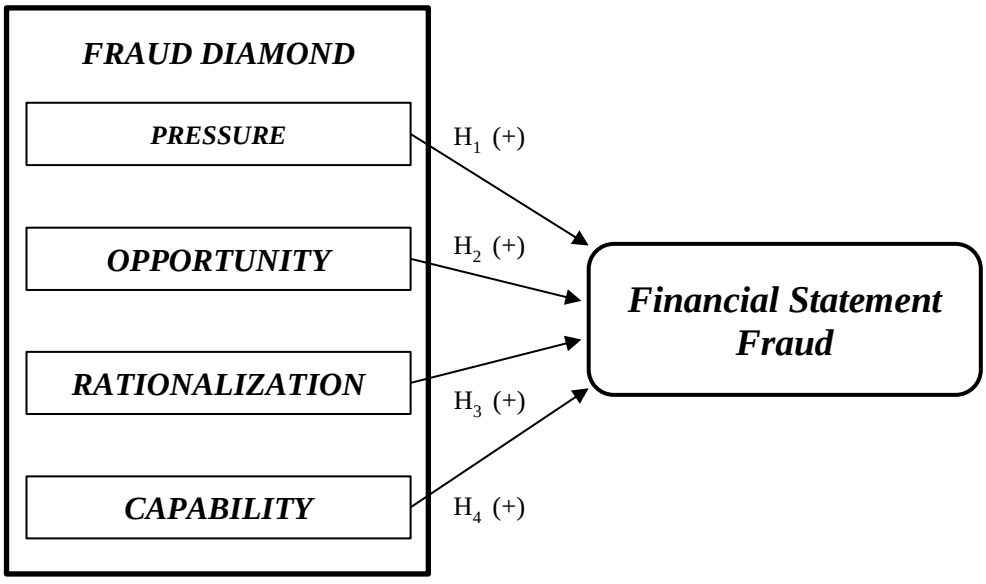

Figure 1. Research conceptual framework

Financial reports are very important information for users in making decisions. Information that is no longer relevant due to fraud reduces the quality of the report and can even affect decisions due to wrong information. Management is one of the parties involved in committing fraud in manipulating financial reports so that the resulting reports look good for users who are of concern.

This study aims to detect fraudulent financial reporting with the factors that influence it. This study will see whether the dependent variable influences the four independent variables, namely pressure, opportunity, rationalization and capability.

Explanation of the Nature of Moderation

1. The Effect of Pressure on Fraudulent Financial Statements
2. The Effect of Opportunity on Fraudulent Financial Statements
3. The Effect of Rationalization on Fraudulent Financial Statements
4. The Effect of Capability on Fraudulent Financial Statements

RESULTS AND DISCUSSIONS

Based on a meta-analysis of all available literature data, our results show that maize and wheat show significantly different yield responses to financial drought reports. This study has the title Fraud Diamond Analysis of Financial Statement Fraud in manufacturing companies listed on the Indonesia Stock Exchange during the 2018-2020 period and aims to determine the effect of pressure, opportunit, rationalization and capability variables on financial statement fraud.

Data analysis

Table 1. One sample kolmogorov-smirnov test

		Unstandardized Residual
N		192
Normal Parameters[a,b]	.0000000	.0000000
	.20994733	34.83400771
Most Extreme Differences	.048	.409
	.035	.409
	-.048	-.309
Test Statistic		.051
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

The results of the normality test using the Kolmogorov-Smirnov non-parametric statistical test above show that the significance value is greater than 0.05, which is 0.200 (0.200 > 0.05). So it can be concluded that the data that became the sample of this study came from a population that has a normal distribution and supports the results of the normality test using normal probability plot graphic analysis.

Table 2. Casewise diagnostics

Casewise Diagnostics[a]

Case Number	Std. Residual	FSCORE	Predicted Value	Residual
173	13.786	498.6380	13.531294	485.1067058

a. Dependent Variable: FSCORE

Whereas there is 1 data sample that has a residual standard value of more than 3, the issuer with sample data at serial number 173 will be eliminated and then tested again for normality until the assumption of normality can be fulfilled.

Table 3. Outliers data

Total Sample	Sig.	Casewise Diagnostics		Emiten Outlier	Keterangan
		Case Number	Std. Residual		
201	0.000	173	13.786	STAR	Abnormal, Eliminate
198	0.016	117	-3.972	KMTR	Abnormal, Eliminate
		124	-6.980	MERK	
192	0.200	-			Normal

Based on the table above, from the 201 sample data used in the study, it can be seen that the 2 (two) p2 values are all greater than 0.05, thus it can be concluded that the research data used needs to be removed from the outlier data.

Results of Descriptive Statistical Analysis

Table 4. Analysis descriptive

	N	Minimum	Maximum	Mean	Std. Deviation
FSCORE	192	-,5460	,6940	,072214	,2234769
ACHANGE	192	-,5900	1,6760	,096641	,2035121
REC	192	-7,0350	6,1560	,245958	,9728729
AUDCHANGE	192	0	1	,85	,354
DCHANGE	192	0	1	,09	,292
Valid N (listwise)	192				

Out of a total of 192 samples (N) in this study, the average value of the FSCORE variable was 0.074010 with a standard deviation of 0.234567, the average value of the ACHANGE variable was 0.096859 with a standard deviation of 0.2041552, the average value of the variable REC is 0.227281 with a standard deviation of 0.9777194, the average value of the AUDCHANGE variable is 0.72 with a standard deviation of 0.451, and the average value of the DCHANGE variable is 0.19 with a standard deviation of 0.391.

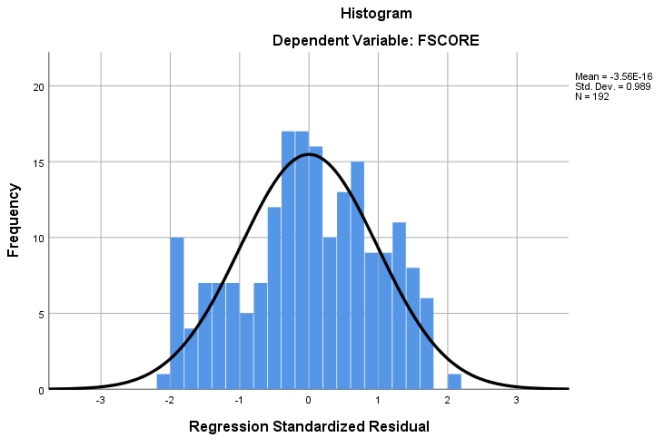

Figure 2. Histogram

It can be seen that the data forms a bell pattern, so it can be said to be normally distributed. In addition to using the normal P-Plot and histogram, to reduce subjectivity in seeing the distribution of the data, in making normality decisions also use the One Sample K-S normality test with residual data. If the value of Sig. > 0.05 then the data is normally distributed.

Table 5. Test multikolinieritas

Coefficients[a]		
	Collinearity Statistics	
Model	Tolerance	VIF

1	(Constant)		
	ACHANGE	.984	1.017
	REC	.939	1.065
	AUDCHANGE	.972	1.029
	DCHANGE	.911	1.098

a. Dependent Variable: FSCORE

The purpose of the multicollinearity test is to test whether there is a correlation between the independent variables in the regression model. A good regression model should not have a correlation between one independent variable and another (Ghozali, 2013). To find out whether the regression model has multicollinearity or not, that is by looking at the results of the variance inflation factor (VIF) and tolerance. The VIF value of all independent variables is less than 10, which ranges from 1.005 to 1.028 and the tolerance value of all variables is greater than 0.1, which ranges from 0.973 to 0.995. So it can be said that there is no multicollinearity in all independent variables.

Table 6. Test autokorelasi

Model Summary[b]

	Change Statistics					
Model	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.521	50.890	4	187	.000	2.107

a. Predictors: (Constant), DCHANGE, ACHANGE, AUDCHANGE, REC
b. Dependent Variable: FSCORE

The purpose of performing an autocorrelation test is to ensure that there is no correlation between the residual error in period t and the residual error in period t-1 in the linear regression model (Ghozali, 2013). The autocorrelation test was carried out by looking at the Durbin Watson (DW) value. Conditions that must be met so that autocorrelation does not occur is the value of dU < DW < (4-dU). The value of dU can be seen using the Durbin Watson table. The calculated DW value in the table above is 2.159 greater than the value of dU = 1.7933 and less than the value of 4-dU = 2.2067, which means that the output obtained is dU (1.7282) < 2.159 < 4-dU (2 , 2067) is in an area where there is no autocorrelation.

Table 7. Test heterokedastisitas

Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.152	.014		10.806	.000
	ACHANGE	-.013	.033	-.028	-.388	.699
	REC	-.004	.007	-.046	-.612	.541
	AUDCHANGE	-.029	.015	-.140	-1.910	.058
	DCHANGE	.016	.018	.068	.902	.368

a. Dependent Variable: ABS_RES

Heteroscedasticity testing was carried out using the Glejser test by looking at the Sig. between independent variables and absolute residual data, where if the value of Sig. greater than 0.05, there is no symptom of heteroscedasticity. Sig. Value all independent variables are more than 0.05, which is around 0.058 and 0.699. Due to the value of Sig. greater than 0.05, it can be concluded that there is no heteroscedasticity.

Table 8. Determination Coefficient Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					R Square Change	F Change	df1	df2	Sig. F Change
1	.722[a]	.521	.511	.1640367	.521	50.890	4	187	.000

a. Predictors: (Constant), DCHANGE, ACHANGE, AUDCHANGE, REC
b. Dependent Variable: FSCORE

The coefficient of determination lies between zero and one. If the R2 value gets closer to one, it means that the independent variables used in this study have a good ability to explain the dependent variable. The R value is 0.722, which indicates a strong correlation between the independent variables namely pressure, opportunity, rationalization and capability with the dependent variable of financial statement fraud (can be seen from the value of R > 0.5). In addition, the Adjusted R-Square value of 0.511 was also obtained which indicated that the proportion of all independent variables (pressure, opportunity, rationalization and capability) simultaneously explained the dependent variable of financial statement fraud, namely 51.1%, while the remaining 48.9% influenced by other variables not used in this study.

Table 9. Simultaneous significance test (F Statistical Test)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.477	4	1.369	50.890	.000[b]
	Residual	5.032	187	.027		
	Total	10.509	191			

a. Dependent Variable: FSCORE
b. Predictors: (Constant), DCHANGE, ACHANGE, AUDCHANGE, REC

The calculated F value (50.890) is greater than the F table (F(0.05.4/187) = 2.419) and the Sig. in the table the value is 0.000 <0.05 so it can be concluded that the linear regression model is feasible to use. This explains the significant influence of the independent variables (pressure, opportunity, rationalization and capability) simultaneously on the dependent variable of financial statement fraud.

Table 10. Test Results t

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.133	.025		-5.385	.000
	ACHANGE	.451	.059	.393	7.695	.000
	REC	.042	.013	.174	3.340	.001
	AUDCHANGE	.139	.027	.268	5.215	.000
	DCHANGE	.285	.032	.476	8.984	.000

a. Dependent Variable: FSCORE

From the table above it can be seen that:

1. Value of Sig. ACHANGE (0.000) <0.05 and t count (7.695) > t table (1.972) with a regression coefficient of 0.451 then H0 is rejected and H1 is accepted.
2. Sig. REC (0.001) <0.05 and t count (3.340) > t table (1.972) with a regression coefficient of 0.042 then H0 is rejected and H2 is accepted.
3. Sig. AUDCHANGE (0.000) <0.05 and t count (5.215) > t table (1.972) with a regression coefficient of 0.099 then H0 is rejected and H3 is accepted.

4. Sig. DCHANGE (0.000) <0.05 and t count (8.984) > t table (1.972) with a regression coefficient of 0.285 then H0 is rejected and H4 is accepted.

Discussion

1. Pressure as a Variable Affecting the Occurrence of Financial Statement Fraud

   Value of Sig. ACHANGE (0.000) <0.05 and t count (7.695) > t table (1.972) with a regression coefficient of 0.451. Financial reports are a form of communication tool to parties outside the company to inform the company's activities during a certain period of time. So it can be concluded that Pressure has a positive and significant effect on Financial Statements, hypothesis (H1) is accepted.
2. Opportunity as a Variable Affecting the Occurrence of Financial Statement Fraud

   Sig. REC (0.001) <0.05 and t count (3.340) > t table (1.972) with a regression coefficient of 0.042. Opportunities can occur due to perceptions of weak internal controls in the company, ineffective management oversight, and abuse of position or authority. So it can be concluded that Opportunity has a positive and significant effect on Financial Statements, hypothesis (H2) is accepted.
3. Rationalization as a Variable Influencing the Occurrence of Financial Statement Fraud

   Sig. AUDCHANGE (0.000) <0.05 and t count (5.215) > t table (1.972) with a regression coefficient of 0.099. Financial statement fraud is a material negligence in reporting financial statements where the financial statements presented are not in accordance with generally accepted accounting principles so that they can influence decisions to be taken by interested parties. So it can be concluded that Rationalization has a positive and significant effect on Financial Statements, hypothesis (H3) is accepted.
4. Capability as a Variable Influencing the Occurrence of Financial Statement Fraud

   Sig. DCHANGE (0.000) <0.05 and t count (8.984) > t table (1.972) with a regression coefficient of 0.285. So it can be concluded that Capability has a positive and significant effect on Financial Statements, hypothesis (H4) is accepted.

CONCLUSION

The conclusions from this study can be drawn as follows:

There is a significant positive (unidirectional) effect between pressure on fraudulent financial statements. This explains that the higher the pressure, the higher or increased the fraudulent financial statements. Vice versa, if the pressure is lower then the fraudulent financial statements will be lower or decrease. Indications of fraud can be seen in the form of intentional policies and actions aimed at committing fraud or manipulation that harm other parties (Sari, 2016). In practice, fraud does not only occur in manufacturing companies, but many financial and banking sector companies experience it. The banking industry is highly regulated and is at the forefront of control and technology issues. However, according to ACFE (2016) it shows that the banking industry ranks second highest in cases of fraud. In addition, other elements that influence the occurrence of fraud include the weakening of risk management owned by banks, the absence of an early warning system which is a mechanism to detect early symptoms or signs that are thought to affect the development of a company's financial progress, and the absence of a whistleblower system so that This case cannot be prevented in banking management. The Association of Certified Fraud Examiners (ACFE) explains that five percent of an institution's total income is lost due to fraud cases, and banks and financial services are the largest part affected, namely sixteen percent. The banking industry is highly regulated and is at the forefront of control and technology issues.

There is a significant positive (unidirectional) effect between opportunity and fraudulent financial statements. This explains that the higher the opportunity, the higher or increased the financial statement fraud. Vice versa, if the opportunity is lower, the fraudulent financial statements will also be lower or decrease. Fraudulent acts can run smoothly when the perpetrator has the opportunity to do so. This opportunity is used when the perpetrator considers that the fraud committed has a small risk of being discovered or detected. Opportunity is a condition that allows fraud to occur (Annisya, Lindrianasari & Asmaranti, 2016). A good company will increase cash flow receipts by suppressing or reducing the amount of receivables. Receivables are assets with a higher risk of manipulation. Thus, going through accounts receivable will potentially be prone to fraud in financial reports (Sari & Lestari, 2020). In general, fraud will always occur when there is no previous prevention and detection. Therefore, companies must have good governance by applying the principles of transparency, accountability, fairness and responsibility, which are expected to reduce information asymmetry between owners (principals) and managers (agents). On the issue of financial statement fraud, this is where the role of the auditor's profession is needed to detect fraud as early as possible, so that it can prevent and possibly protracted scandals. Auditors must be able to consider the possibility of fraud from various perspectives, one of the theories that is often used to make an assessment of fraudulent financial statements is the fraud triangle theory.

There is a significant positive (unidirectional) effect between rationalization and fraudulent financial reporting. This explains that the higher the rationalization, the higher or higher the fraudulent financial statements will be. Vice versa, if the rationalization is lower then the fraudulent financial statements will also be lower or decrease. Important information content in a financial report makes managers more motivated to improve entity performance so that existence in the business world will be maintained (Diany & Ratmono, 2014). Fraud in financial statements can be detected using the fraud diamond theory (Sari & Lestari, 2020). The fraud diamond theory is a form of refinement of the fraud triangle theory. The elements of the fraud diamond are actually the same as the elements contained in the fraud triangle but the capability element is added to the fraud diamond as a complement. Rationalization is the attitude or character of a person who allows fraud or even receives encouragement from various parties to rationalize fraud (Sari & Lestari, 2020). Financial reports have comprehensive components, but fraud often occurs in these reports. Fraudulent financial reporting can be done intentionally to deceive users of financial statements by presenting material values from engineered financial reports. There are many reasons behind the occurrence of fraud, including conflicts of interest that occur between management as agents and investors as principals that benefit one party, resulting in financial statement fraud.

There is a significant positive (unidirectional) effect between capability and fraudulent financial statements. This explains that the higher the capability value, the higher or increased the financial statement fraud. Vice versa, if the capability is lower, the fraudulent financial statements will also be lower or decrease. Fraudulent financial statements, even though they are at low or medium levels, are intended to cover up poor performance or to get a higher bonus for their performance (Sihombing & Rahardjo, 2014). Financial report fraud occurs because of pressure and encouragement and motivation from actors to manipulate financial reports so that the company's performance looks optimal with the aim of attracting the attention of investors and increasing the company's stock price (Rahmatika, 2019). Losses arising from fraudulent financial statements cause significant losses and can affect the long-term sustainability of the company's business. The worst condition that can be experienced by a company because of this action is bankruptcy (Aviantara, 2019). In addition, a change of directors may also indicate that management is deliberately removing directors who are aware of fraud that has been committed (Sari & Lestari, 2020). The ability in this study is proxied by changes in company directors which are generally loaded with political content and the interests of certain parties which trigger the emergence of conflicts of interest (Sari & Lestari, 2020). Changes in directors can be a company effort to improve the performance of the previous directors by changing the composition of the directors or recruiting new directors who are

considered more competent than the previous directors. Meanwhile, on the other hand, a change of directors could be an attempt by the company to get rid of directors who are considered aware of fraud committed by the company. Change of company directors (DCHANGE) is measured by a dummy variable if there is a change in the Board of Directors is coded 1, otherwise if there is no change in directors is coded 0.

The limitations of this study are that the period of the financial statements has not been examined so that fewer samples are obtained, and the results cannot reflect the actual conditions. Future research is expected to add more variables used to detect financial statements, add variable explanatory proxies, and use other new indicators that are considered appropriate for use, for example using pentagon fraud analysis in detecting financial reports. Users of financial statements can use the ratio of changes in total inventory as a detector of financial statement detection, because in this study the ratio is proven to be used as an indicator of financial statement fraud.

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