Accountant’s Perception on Fraud Detection in Financial Statement Reporting Using Fraud Triangle Analysis

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Abstract: This study discusses the perceptions of accountants in considering the existence of fraud (fraud) in the financial reporting. Indonesian Institute of Accountants (IAI) through Statement on Auditing Standards (PSA) No. 70 require an external accountant in Indonesia to consider fraud during the process of auditing the financial statements. For this purpose, IAI adopted a Statement on Auditing Standard 99 (SAS 99). This study aims to (1) test if indications of fraud SAS 99 which refers to the concept of fraud triangle can be used for the detection of fraudulent financial reporting in Indonesia, (2) to test whether demographic factors such as: experience, credentials, educational background, gender, and training experience affect perceptions of accountants difference in using indications of fraud to detect fraudulent financial reporting. The population in this study was all external accountants who work in public accounting firms, internal accountants who work in the enterprise, government accountants who work in the Audit Board and accounting educators at several universities steeper in Pekanbaru. The sampling technique is using a convenience sampling. Researchers used a questionnaire as an instrument to collect data. To achieve the objectives of the study, to examine how perceptions of accountants on tendency detection of indications of fraud in financial reporting, this research then used a questionnaire which refers to the SAS 99 by referring to the concept of fraud triangle analysis. The result showed that components of Fraud Triangle analysis, Pressure and Opportunity variable have an effect on Redflag, while Rationalization variable has no effect on Redflag.

Keywords: Fraud, pressure, opportunity, Rationalization, and accountants.

1. Introduction

Fraudulent financial reporting is a deliberate act of manipulating financial statements by overestimating the value of sales and assets, lowering the cost of sales, debt and expenses, manipulating the period or date of the recorded transaction or the time of its recognition, not correctly measuring the transactional occurrence, intentionally misusing the principle Accepting public accounting (Wallace & Earl, 2009). The role of accountants is often questionable in dealing with fraudulent financial statements. The audit expectation gap indicates that the unfulfilled public expectations about the role of accountants in each case are fraudulent (Hassink, Meuwissen & Bollen, 2010). Statement on Auditing Standard No.99 (SAS No.99) classifies indications of possible red flags based on the concept of fraud triangle through opportunity, pressure, and rationalization factors (Albrecht, Wernz & Williams, 1995). Wilks and Zimbelman (2004) suggest that if the fraud trials checklist is combined with the fraud triangle theory, accountants should be better able to process the possibility of fraud. The Indonesian Institute of Accountants (IAI, 2001) through the Statement of Auditing Standards (PSA) no. 70 that adopt SAS No.99 requires external accountants in Indonesia to consider fraud during the financial statement audit process (IAI, 2001). In addition, internal accountants and government accountants also have an important role in the prevention and detection of fraud in Indonesia, by utilizing fraudulent indications that arise. Likewise, the educators' accountants in developing and expanding the teachings related to the prevention and early detection of fraud that occurs in the entity accounting system by introducing the circumstances that allow the occurrence of fraud to accounting students in particular.
Several previous studies have examined the effectiveness of fraud indication to detect fraud suggested by SAS No. 99 through perceptions of accountants. According to Hegazy and Kassem (2010), an accountant external required to have sensitivity in response to indications of fraud (red flag) that occurred within the company and concluded that indications such as manipulation of earnings and dismissal of tax debts be an indication of fraud is most important for the perception of external accountants in Egypt to detect possible The existence of cheating. Moyes, Lin, Landry Jr. And Viedan (2006) using 42 indications of cheating Based on the fraud triangle attached to SAS, No. 99 for detecting fraud in financial statements, found only 6 indications of fraud on the pressure, 5 indications of fraud on the occasion, and 4 indications of fraud in the most effective rationalization of the perception of the internal accountant. Research conducted by Yang, Moyes, Hamedian and Rahdarian (2010) also found that external accountants are more effective using indications rather than internal accountants. Majid, Guldan Tsui (2001), which uses 15 indications of fraud from research Carmichael (1988) found only 6 indication of an effective fraud by external accountants in Hong Kong in assessing the likelihood of fraud. Results of previous studies also showed differences in the perception of internal and external accountants in the use of the effectiveness of the 42 indications of fraud; external accountants are more effective in responding to indications of fraud rather than internal accountant (Moyes, 2007). Demographic factors can also influence the perception of accountants in considering the indication of fraud (Yang et al., 2010). According to Moyes (2007) gender demographic factor is one of the factors that influence perception of accountant in using fraud indication to detect fraud. So also with Yang et al. (2010) that concluded Iran accountant demographic factors associated with the effectiveness of the indications of fraud contrary, the different results found in studies conducted by Smith, Omar, and Baharuddin Idris (2005). They found that accountants' perceptions in Malaysia, especially in Klang Valley areas, were not influenced by gender / gender demographic, KAP, and accountant experience.

This study aims to (1) Testing if indications of fraud SAS 99 which refers to the concept of fraud triangle can be used for the detection of fraud in Indonesia, (2) Testing whether demographic factors such as experience, degree, educational background, gender, and training experience influence the perceptions of accountants differently in using fraud indications to detect fraudulent financial reporting. In contrast to previous research, this study combines research conducted by Yang et al. (2010), Moyes et al. (2006), Moyes (2007), and Smith et al., (2005). In addition, if prior research emphasizes only the perceptions of public accountants, this study extends the type of accountant by including the perceptions of internal accountants, governments, and educators in assessing the usefulness of indications of fraudulent financial reporting versions of SAS No.99.

2. Review

2.1. Accountant’s perception and fraud indication

Accountants can be grouped into a external, internal, government and educators. An external accountant is an auditor of financial statements made by a person who is not bound to work with the inspected company to ensure that the information contained in the financial statements is free of material misstatement due to errors and frauds in the accounting period. An internal accountant is a person or body conducting an organization's internal audit activities (Nasution, 2003). According to Arnan, Wisna and Firman yazah (2009) government accountants are professional accountants working in government agencies whose main task is to audit the financial liabilities presented by the organizational unit or government entity or financial accountability shown to the government. Accountant Educator is a profession of accountants who provide services in the form of accounting education services to the community through existing educational institutions, in order to bear accountant skilled and professional accountants. Accountants may have different perceptions of fraud indicators because of differences in job backgrounds. External accountants are more effective in responding to cheating indications than internal accountants (Moyes, 2007). External accountants have
different work areas in different types of companies as clients. Thus external accountants may be more aware of the various indications of fraud that arise during the audit process when compared with internal accountants who only work on one company. Government accountants that have only a working area in the public sector where the indications are found to be different from the private sector so as to allow for different perceptions of indications of fraud. Meanwhile, educators' accountants may be more likely to use indications of cheating than the theoretical side of teaching as tetpai and rarely used for the practice of uncovering accounting fraud. Therefore, between external accountants, external accountants, government accountants, and educators accountants have different perceptions of indications of fraud due to different work areas in recognizing fraud indications.

The results of previous studies seem to support the possibility of a difference in perception of the most effective fraud indication used to detect fraud. Research conducted Apostolou and Hassell, Crunch et al., Gramling and Myers in (Moyes, 2007) concluded that the indications of cheating received by the accountant were not the same. Moyes et al. (2006) found that indications of fraud based on rationalization were more effective than fraudulent indications based on opportunity and pressure. Thus the first hypothesis proposed is:

- H.1 : Pressure as component Fraud Triangle analysis have effect to Redflag
- H.2 : Opportunity as component Fraud Triangle analysis have effect to Redflag
- H.3 : Rationalization as component Fraud Triangle analysis have effect to Redflag
- H.4 : Pressure, Opportunity and Rationalization as component Fraud Triangle analysis have effect to Redflag

3. Research Method

3.1. The scope of research.

This study aims to find out how perceptions of accountants to the indication of fraudulent financial reporting by using Fraud Triangle Analysis. The population in this study are the Accountants who work as the Company's Internal Accountant, External Accountant, Government Accountant, and Educator Accountant. The scope of this study is to know how the accountants' perceptions of indications of fraudulent financial reporting.

3.2. Population and Sample

The population in the study are all external accountants working in Public Accounting Firm, internal accountants working in the company, government accountants working at the State Audit Board and educational accountants at several universities in Pekanbaru. The sampling technique uses convenience sampling. Researchers used questionnaires as instruments to collect data.

3.3. Research Variables and Measurements

The main variable in this research is fraud triangle based on opportunity, pressure and rationalization. The fraud variable is measured by fraudulent indicators from SAS no.99. An indication of fraud under pressure is an indication of the possibility of fraud resulting from the pressure imposed by the board of directors, executives, officers, investors, creditors, or analysts within an organization. Question items for fraud indicator variables based on rationalization amounted to 12 indicators. Each question item is measured on an interval scale from Strongly Disagree (1) to Strongly Agree (5). The questionnaire used for this research questionnaire came from the literature on appendix SAS No.99 and has been tested by some previous researchers such as Moyes (2007), Yang et al. (2010) and Smith et al. (2005). The fraud indicators are then analyzed in terms of demographic factors: experience, lectures, education, gender, training and lectures. Measurement of experience factors is measured on a nominal scale as done (Moyes 2007). Size is taken based on the length of the accountant work is less than 5 years, 6-10 years, 11-15 years, 16-20 years, and more than 20 years. Major when accountants study science grouped into Accounting, Management, Economics), and others (Yang et al., 2010).
Educational levels include D3, Bachelor, Master, and Doctorate (Yang et al., 2010). Sex factors were measured using a nominal scale and consisted of Men and Women (Moyes, 2007). The training factor that will be asked is whether or not the accountants participated in the training on the indication of fraud.

4. **Instrument Analysis.**

To achieve the first research objective is to test whether the indication of SAS No.99 fraud refers to the concept of fraud triangle can be used for fraud detection, then the test is a validity and reliability test. The validity test is conducted to measure whether the research instrument is really capable of measuring the constructs used. To obtain the validity of the questionnaire, efforts are focused on achieving content validity. For validity test using Pearson Correlation and convergent validity. Meanwhile, the reliability test is intended to determine the degree of consistency with the instrumental measuring instruments. Reliability is a requirement for achieving the validity of a questionnaire with a specific purpose. In this research the measurement is done by reliable analysis using Cronbach Alpha test and composite reliability. To test whether demographic factors such as experience, degree, educational background, gender, and training experience influence the perceptions of accountants in using fraud indications to detect fraudulent financial reporting, this study uses One-way ANOVA statistical tool, t-independent test.

5. **Results and Discussion**

The population in the study are all external accountants working in Public Accounting Firm, internal accountants working in the company, government accountants working at the State Audit Board and educational accountants at several universities in Pekanbaru. The sampling technique uses convenience sampling. Researchers used questionnaires as instruments to collect data. Data processed in this study were as many as 35 questionnaires from 35 respondents with professions as Public Accountants, Internal Accountants, Accountants educators and Government Accountants. 1). **Normality test**

The normality test aims to test whether in the regression model, the intruder or residual variable has a normal distribution. To test whether the residual is normally distributed or not there are two ways that is by graph analysis and statistical test.

**Figure-1**

Histogram - Uji Normalitas

**Figure-2**

P Plot - Uji Normalitas

Viewing the display on the histogram graph in Fig. 1 provides a near-normal distribution pattern, whereas in Figure 2 the normal graph probability plot shows spots spread around the diagonal line and
its spreading follows the direction of the diagonal line. So it can be concluded that the regression model in this study has met the assumption of normality.

5.2. Multikolonieritas Test

| Model | Collinearity Statistics |
|-------|------------------------|
|       | Tolerance | VIF  |
| 1     | Gender     | .629  | 1.591 |
|       | Posisi     | .849  | 1.178 |
|       | Pendidikan | .917  | 1.091 |
|       | Experience | .638  | 1.567 |
|       | PernahPelatihan | .574  | 1.741 |

From table 1 above shows that all independent variables have a tolerance value greater than 0.10 which means there is no correlation among independent variables whose value is more than 95%. The result of calculation of Variance Inflation Factor (VIF) value also shows the same thing that all independent variables have VIF value smaller than 10. Then it can be concluded that the regression model in this research has been free from multicolinearity problem.

| R | R Square | Adjusted R Square |
|---|----------|-------------------|
| .495\(^a\) | .245 | .172 |

\(a\). Predictors: (Constant), Rationalization, Opportunity, Pressure

b. Dependent Variable: RedFlag

From table 2 above shows that the R square value of 0.245 means that only 24.5% dependent variation is Red Flag which can be explained by independent variable that is), Rationalization, Opportunity, Pressure. This indicates the low or weak ability of independent variables in explaining the dependent variable, while the remaining 75.5% is explained by other variables not included in this study. Other factors that can be used to find out RedFlag or signals of cheating may use other indicators.
5.3. Hypothesis Testing

Significance Test of multiple Regression Test of multiple Regression Significance

Tabel 3
F Test - ANOVA

| Model   | Mean Square | F       | Sig.  |
|---------|-------------|---------|-------|
| 1       | Regression  | 1,159   | 3.359 | .031b |
|         | Residual    | .345    |       |       |

From Table 3 above shows the value of F arithmetic of 3.359 with a significance value of 0.031. This indicates that the regression model can be used to test the effect of independent variables: Pressure Opportunity, Rationalization, to Redflag, since the significance value is less than 0.05 (sig < 5%). So it can be concluded Hypothesis accepted that shows that there is significant influence between, Pressure Rationalization, Opportunity influence simultaneously or simultaneously to Redflag.

Tabel 4
Uji t

| Model | Unstandardized Coefficients | Std. Error | t     | Sig.  |
|-------|-----------------------------|------------|-------|-------|
|       | B                           | Std. Error |       |       |
| 1     | (Constant)                 | -0.119     | 2.393 | -0.05 | .961  |
|       | Pressure                   | 8.812      | 3.646 | 2.417 | .022  |
|       | Opportunity                | -8.643     | 3.191 | -2.709| .011  |
|       | Rationalization            | 0.463      | 0.595 | 0.778 | .442  |

a. Dependent Variable: RedFlag

Based on the results of statistical tests t in Table 4.2.2.b above, then obtained the regression equation as follows:

\[
\text{Redflag} = -0.119 + 8.812 \text{ Pressure} - 8.643 \text{ Opportunity} + 0.463 \text{ Rationalization} + \varepsilon
\]

From the regression equation above, it is known that the constant of -0.119 states that if the independent variable consisting Pressure, Rationalization, Opportunity, then the average Redflag - 0.119. Pressure variable has positive regression coefficient, opportunity has negative coefficient, Rationalization has positive coefficient.

6. Conclusion

This means that firms with high levels of pressure will indicate that fraudulent signals can be readily identified. In addition, when viewed from the significance of the pressure and opportunity is very influential on Redflag. With a high pressure will be able to give a signal of fraud, it can also be seen from the significance value of 0.022 which means effect on Redflag. For Opportunity variable
has negative coefficient with significance value 0.011 means with Low chance level will cause possibly can detect any signal of cheating. And for Rationalization has a positive coefficient value of significance greater than 0.05 ie 0.442 which means Rationalization has no effect on Redflag. The results of the significance test of independent variables are partially complete in the following discussion.

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