INTRODUCTION

The case of increasing fraud in the financial statements of various companies becomes a particular concern to parties such as auditors, creditors, investors, and so forth. In 2016, there was information that showed that fraud occurred in 2016 was 2.0% within four years. Although the percentage of losses is not large, the estimated losses are very high, reaching $975,000. Lots of cases like "Warning Sign" or "Red Flag" are ignored; the case should be a warning sign for stakeholders in combating fraud. According to James Hall, fraud is a misrepresentation of material facts made by one party to another party to deceive and cause the other parties who rely on the facts to suffer losses. According to the theory of Horwarth (2011) that is the refinement of the Cressey (1953), which was later developed into a fraud diamond, this theory adds capability.

The addition was made in 2004 by Wolfe & Hermanson. Seven years later, there was the development of a new theory by Horwath (2011) by adding arrogance as a refinement of the theory. The addition of these two elements is believed to provide a great influence. The five actions are the driving factors for fraud in financial statements. First, pressure. It refers to a driving factor for fraud because the pressure within oneself is stronger and tends to meet his personal needs. If the internal control of a company or organization is weak, there will be a chance of fraud. Second, opportunity. It is one of the factors that cause fraud due to the low level of supervision in the corporate environment and abused power rights. Third, rationalization. It refers to an important element of fraud because the perpetrators feel that their actions are correct and do not violate the rules so that the perpetrators use their position to carry out these actions. Fourth, capability or competence. It is the neglect of the employee in terms of non-compliance with existing regulations within the company. Fifth, arrogance. It is a behavior that reflects the indiscipline in the company rules and policies because perpetrators feel it does not apply to them.

The five factors that are possible to be minimized are the opportunity through the implementation of processes, procedures, and continuous monitoring. It can be seen that from the five factors (pressure, opportunity, rationalization, capability, and arrogance), only rationalization is challenging to measure because the perpetrators feel that what they
are doing is right and do not violate the existing rules.

Fraud theory is still rarely used by researchers in detecting various frauds in a company. According to Wells, 2011 (in Sihombing, 2014), companies that committed fraud in their financial statements make investors think several times before investing in these companies. Iqbal & Murtanto (2016) said that companies should reflect financial statements in actual or transparent conditions so as not to harm other parties.

A comprehensive report is critical for those who use it. Every manager wants to publish the profit state of his company in the best condition. However, there is a negative impact if the company does not reflect its financial statements in the real condition that will lead to fraud. This is an invalid report if used by shareholders, for example, for their presentation of material. Increased fraud in financial statements makes business people use this report to manipulate their business results so that the financial statements look good in public view.

This study discusses interesting topics concerning management behavior in manipulating the results of the company's financial statements. When discussed in more depth, many factors encourage someone to commit fraud. Fraud pentagon can be a reference to reduce the practice of manipulation and non-transparency of a financial statement. Therefore, this research is expected to be able to minimize the fraud that often occurs in the company's financial statements and provide comprehensive data, which reflects the real situation to both shareholders and stakeholders.

2. DISCUSSIONS

2.1. Agency Theory

According to Jensen (in Iqbal & Murtanto, 2016), in this context, management becomes an agent hired to work and is responsible for shares invested by stakeholders. Both have a close relationship because they have an interest in the company. Management or agents have enormous responsibilities towards stakeholders. This is because the decisions made by agents must be in accordance with the actual situation because later, the information will be used by stakeholders in future investments.

2.2. Fraud

According to Tunggal (2011), fraud is intentional cheating, generally explained by various lies, plagiarism, theft, and customers can commit it, creditors, investors, suppliers, bankers, insurance guarantees, and the government. Until now, no basis represents a correct understanding of fraud itself because fraud is underhanded and misused by its users to meet personal interests that can harm people (financial reporting users). The Chairman of ACFE (Association of Certified Fraud Examiners), Joseph Wells, said that fraud is a significant crime and causes losses for most of the general public based on cheating and fraudulent, which is used as the primary basis for conducting.

2.3. Financial Statement Fraud

According to ACFE, there are 3 factors of fraud as follows: First, net income overstatement, meaning that the profit presented is not in accordance with the actual situation or has a high difference than the original profit; second net income understatement, meaning that the profit presented is not in accordance with the actual situation or has a very low difference than the original profit. Second, asset misappropriation that refers to a fraudulent asset that is committed due to misuse. Third, corruption, in which refers to an illegal act that can harm many people.

2.4. Fraud Pentagon Theory

According to the theory of Horwarth (2011) that is the refinement of the Cressey (1953), which was later developed into a fraud diamond, this theory adds capability. The addition was made in 2004 by Wolfe & Hermanson. Seven years later, there was the development of a new theory by Horwath (2011) by adding arrogance as a refinement of the theory. The addition of these two elements is believed to provide a great influence. There are 5 elements in fraud pentagon theory, namely pressure, opportunity, rationalization, competence or capability, and arrogance. The pressure is an impulse that arises in a person because there are factors that persuade him to do to meet his needs. Opportunity is the possibility of fraud occurs not only if someone feels depressed, but also if there is an opportunity for someone who is not under pressure. Rationalization is someone who does not feel that he made a mistake. This element is challenging to measure because of one's rational sense. Competence is the capability of someone in utilizing the position he has; he can be arbitrary in violating the rules and policies that have been set. Arrogance is something that makes someone feels that the rules in the company do not apply to him.
2.5. Theoretical Framework

The first measurement of fraud pentagon is a financial target where the achievement of the company to generate profits is usually interpreted as an element of the financial target. The effort made by a company to get a profit can be measured by ROA (Return on Assets). This financial target can make someone act negatively because of many factors that encourage someone to do so, such as anxiety about performance, and so forth. Then, it can be assumed that financial target has a positive effect on the fraudulent financial reporting.

The pressures experienced by the industry and the situation of the operating entity cause an unstable financial situation. Unstable circumstances decline the company's financial stability. A significant reduction in the company's assets will prevent investors, creditors, and other stakeholders to invest in the company. Therefore, the company is considered unable to operate properly. Then, it can be assumed that financial stability has a negative effect on fraudulent financial reporting.

The third measurement of fraud pentagon is external pressure. Companies need additional debt or capital to overcome these problems. Moreover, higher company leverage leads to higher debt and credit risk, which makes creditors worry about lending funds to the company. Based on this description, there is a possibility of a positive influence indicated by the variable of external pressure on fraudulent financial reporting. The fourth measurement of fraud pentagon is institutional ownership. This has become a special pressure for the company. The magnitude of management's responsibility to the institution makes management do anything so as not to lose its investors. One way is to manipulate financial statements to make them look attractive. Companies are increasingly depressed if institutional ownership is greater so that financial statement fraud can occur. This can be interpreted as institutional ownership has a positive effect on fraudulent financial reporting.

The fifth measurement of fraud pentagon is ineffective monitoring. This is the lack of an existing surveillance system that opens opportunities and gaps for someone to act in committing a crime. This happens because of weak control from the internal company so that the opportunity for fraud is even greater. This can be interpreted that there is a negative influence indicated by the variable of ineffective monitoring on financial statement fraud.

The sixth measurement of fraud pentagon is the quality of external auditors where the auditor has a significant role in the company. Having an audit will hamper the process of earnings management because by relying on an audit, the absolute report can be guaranteed. This is because the auditor can be portrayed as reliable information for companies and stakeholders. Therefore, it is suspected that there is a negative influence indicated by the variable of quality of external auditor on financial statement fraud.

The seventh measurement of fraud pentagon is by changing auditors. The company's effort to eliminate traces of fraud is to change auditors. Change in auditor is related to rationalization in which the tendency of fraud perpetrators will justify the actions taken. Therefore it is suspected that there is a negative influence indicated by the variable of change in auditor on the financial statement of fraud.

The eighth measurement of fraud pentagon is the change of company directors. In the pentagon theory, it is called as stress management, which is the pressure from superiors. The solution used by the company is to give a new nuance to the work environment. Thus, it can be assumed that the change of company directors has a negative effect on fraudulent financial reporting.

The ninth measurement of fraud Pentagon is the frequent number of CEO's picture. The arrogant attitude possessed by the CEO can be seen from the number of CEO photos uploaded to the public, which aims to show that the CEO has power and an important role in the company. This has led to the arrogant attitude of the CEO. Therefore, it can be assumed that there is a positive influence indicated by the variable of CEO's picture on financial statement fraud.

![Figure 1. Conceptual Model](image)

3 CONCLUSION

Achieving high financial targets is also needed as an assessment of high company performance. This is done by increasing fraudulent financial statements. Companies that have large assets will prioritize financial stability to attract investors to invest in the company. While companies that have small or large
assets and also have large cash outflows tend to have the opportunity to manipulate in order to make the company's stability looks good. If the level of leverage in a company is considered to increase or tends to be high, it can be considered that the company has a very large amount of debt. This is a problem because the company will have difficulty when it needs capital. Institutional Ownership, For companies, there is no difference in the ownership of shares by institutions or individuals because the company must distribute dividends to shareholders. Effective monitoring, The board of commissioners certainly does not want fraud to occur; the management will then commit the fraud. Quality of external auditors, Trying to act professionally and having an accounting code of ethics, so that KAP (Public Accounting Firm) that are classified as either the big four or not do not have the same tendency in conducting and not conducting financial statement fraud. Change in auditor. By indicating to commit fraud, the company does not have to replace auditors. The old auditor can also work together with other parties to commit fraudulent financial statements. Change of company directors, the company's efforts to improve the performance of directors are to replace directors. Frequent Number of CEO's Picture does not affect financial statement fraud.

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