



## DIAMOND FRAUD ELEMENTS: IMPLICATION OF FRAUD INDICATIONS ON PREPARATION OF FINANCIAL REPORT

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### Abstract

*This research aims to explore fraud diamond elements to detect fraud indications in financial statement. Samples were taken from 32 state owned enterprises of Indonesia which published audited financial statement from 2016 to 2018. The hypothesis in this study were tested by Benish M-score model. Fraud diamond elements are financial stability measured by assets change, financial pressure measured by return on assets, external pressure measured by leverage, nature of industry measured by receivable, ineffective monitoring measured by independent commissioners, rationalization measured by total accrual to total assets and capability measured by change of directors. Nature of industry has positive effect to fraud indications in financial statement while the rest six elements have no influences.*

**Keywords:** *Fraud, Financial Report, Financial Pressure, Rationalization, Benish M-Score Model*

### Abstrak

Penelitian ini bertujuan untuk mengeksplorasi unsur diamond fraud untuk mendeteksi indikasi kecurangan dalam laporan keuangan. Sampel diambil dari 32 BUMN Indonesia yang menerbitkan laporan keuangan audit dari tahun 2016 hingga 2018. Hipotesis dalam penelitian ini diuji oleh model Benish M-score. Elemen fraud diamond adalah stabilitas keuangan yang diukur dengan perubahan aset, tekanan keuangan yang diukur dengan pengembalian aset, tekanan eksternal yang diukur dengan leverage, sifat industri yang diukur dengan piutang, pemantauan yang tidak efektif diukur oleh komisaris independen, rasionalisasi yang diukur dengan total akrual terhadap total aset dan kemampuan yang diukur dengan pergantian direktur. Sifat industri memiliki efek positif terhadap indikasi fraud dalam laporan keuangan sedangkan enam elemen lainnya tidak berpengaruh.

**Kata Kunci:** kecurangan, laporan keuangan, tekanan keuangan, rasionalisasi, model benish m-score

## INTRODUCTION

Two of the four elements of diamond fraud, namely opportunity which is projected with variables in the effectiveness of supervision and rationalization have a significant effect on the possibility of financial statement fraud (Oktarigusta, 2017). On this study researchers used financial statement data on manufacturing companies that had gone public and listed on the Indonesia Stock Exchange in 2011-2015. Aprilia (2017) states that pressure projected by financial stability variables has a significant effect on financial statement fraud. In this study, researchers used population financial statement data on manufacturing companies listed on the Indonesia Stock Exchange in 2012-2014. Suhartinah et al. (2015) stated that rationalization projected by external auditor opinion and pressure projected with financial target variables and financial stability positively affects the occurrence of financial statement fraud. In this study, using financial statement data on banking sector companies listed on the Indonesia Stock Exchange in 2011-2015. Indriani et al. (2017) also stated that the pressure element projected by financial stability and opportunity variables that are projected by nature of industry variables affects detecting fraud in financial statements. In this study, using financial statement data on companies included in the Kompas 100 Index listed on the Indonesia Stock Exchange in 2014-2015.

Fraud itself is generally defined as a deception that is intentionally committed and has an impact on losses that are not realized by the aggrieved party and benefit the perpetrator of the fraud. Fraud according to Tuanakotta (2019) is interpreted as a form of human tendency,



which becomes a problem, threat, and risk for every organization. The practice of fraud in human life is no longer new, as J.F. Adebisi (2013) said that the practice of fraud has been related to human organizations since historical times, this is in line with the phrase said by N. Mansoor et al. (2015) which the financial accounting scandal in this case fraud is no longer new news, it proves that fraud occurs in real life from the past until now days in financial reporting and practice.

Singelton (2010) mentions there are three categories of fraud forms, namely: irregularities in financial reporting (fraudulent financial reporting), misuse of assets (assets misappropriation) and corruption. One of the fraud cases that shocked the world was the Enron case that occurred in December 2001. Deil (2014) in her article mentioned that the Enron case has very broad implications for global market finances which caused losses to shareholders of \$ 74 billion, as well as the cause of the dissolution of one of the Big 4 best KAP, namely, KAP Arthur Andersen for being involved in the fraud of financial statements by Enron. Enron marks up financial statements by window dressing and hiding debts using off-balance sheet techniques or financial obligations deliberately not recorded in financial statements. In addition to the Enron case, in 2017 there was widespread fraud that occurred at British Telecom's subsidiary in Italy. Reporting from Nuralimah (2017) the mode is to increase the company's income through the extension of fake contracts and fake transactions with vendors, obtaining bonuses is the impetus for this fraud. The impact was that British Telecom had to lower GBP by 530 million and cut its year-long cash flow projections to pay off hidden debts and losses in paying taxes on the profit bubble.

As Ruankaew (2016) said that fraud is a debilitating factor and influences business growth that continues to be a major problem for many organizations. For this reason, in this study using state-owned enterprises. In various news in the public mass media, many are horrified by accounting scandals that occur in state-owned companies, namely PT Garuda Indonesia and PT Kimia Farma. Including the case that is currently being discussed is the Jiwasraya case which is an example that there is fraud in financial reporting on state-owned enterprises.

In addition, state-owned enterprises have different financial conditions, but can be categorized as having the same source and nature of funding, therefore even if their financial situation worsens or is not good, they can still carry out business activities as usual, therefore if there is fraud disguised it will be difficult to know. The condition of losses incurred in state-owned enterprises tends not to be reported to the public publicly. When companies have a lack of availability of funds or losses, then any kind of expenditure will be more considered, but in the case of state-owned companies their funds are covered by funds.

Fraud cannot be avoided, but prevention and early detection can still be done by studying the theory developed and studying factors and risks through existing cases. Cressey in Skousen et al. (2008) dividing the common nature of cheating into three parts known as the fraud triangle. The general nature of fraud is pressure, opportunity, and rationalization. As a development of the theory initiated by Cressey, Wolfe and Hermanson in 2004 added a new element of fraud, namely "capability", so that a new theory was formed called The New Fraud Diamond. Fraud diamond is a refinement of the fraud triangle theory that is intended to detect and prevent fraud proposed by Wolfe and Hermanson.

Fraud diamond describes about the factors or impulses why people want to commit fraud so that by examining these factors can be known whether a person or a company is indicated to misstate in financial statements intentionally. Oktarigusta (2017) said to do prevention and detection, there are several ways and perspectives that can be done, one of which is the diamond fraud perspective.



## **THEORETICAL FRAMEWORK**

### **Auditing**

Auditing is the accumulation and evaluation of evidence regarding information to establish and report at the level of correspondence between information and establish criteria. Audits should be conducted by competent and independent persons (Arens, et al., 2014). Gramling et al. (2012) also added that auditing is to achieve goals and evaluate based on assertions regarding economic actions and events to believe the level of correspondence between assertions and establish criteria and communicate results to interested users. From the understanding of auditing according to the experts above, it can be concluded that auditing is the activity of evaluating financial statements to the book with a systematic process that aims to ensure the truth between what is written in the reporting of information and the criteria that have been set, the results are communicated to third parties in need.

### **Fraudulent Financial Reporting**

Fraud is defined by Elder et al. (2010) as misstatements that are done intentionally in the making of financial statements. Another Elder Zimbelman (2009) who defined misstatement is a general term that includes all sorts of ways that can be used with certain shrewdness, chosen by the individual, to benefit from the other party by making false representations.

Based on SA section 316 in PSA No.32 published by IAI, fraud can be grouped into reporting fraud and misuse of assets. Containing elements of manipulation, falsification, alteration of accounting records, or supporting documents, the deliberate application of incorrect accounting principles that are the source for the preparation of financial reporting.

Kamal et al. (2016) mentioned that the Benish M-Score model was found to be effective in detecting 71% of financial reporting scandals in America from companies that were indicated to be cheating financial statements and subject to accounting enforcement actions by the U.S. Securities and Exchange Commission. In addition, the Benish M-score model is also able to detect revenue manipulation and financial statement fraud conducted by public companies in Malaysia, the results of the study managed to detect financial statement fraud by 82% in the sense that there are 14 out of 17 samples of companies accused of fraud proven to be fraudulent.

According to Benish (1999) in Hugo (2019), Benish M-Score is a model for predicting report fraud developed using logit regression, where there are eight financial ratios contained in the model determined and tested using principle of component analysis. The eight ratios contained in the model include (1) DSRI (days sales receivable index) is a ratio of comparison between sales and receivables from the first year and the second year, which measures the balance between receivables and income for two consecutive years. (2) GMI (gross margin index) is a sales ratio minus sales expense, and general administrative expense. (3) DEPI (depreciation index) is the depreciation rate ratio in a given year. (4) SGI (sales growth index) is a sales growth ratio that compares sales in the first year or t year with the previous year or t-1. (5) LVGI (leverage index), is a ratio that compares total debt and total assets in the first year or t year with the same ratio in the previous year or t-1. (6) TATA (total accrual to total assets) is the ratio of total accrual or total accrual partition used in previous work to assess the extent to which managers can make discretionary accounting options for performing profit management. (7) AQI (asset quality index) is the ratio of assets other than asset property, plant, equipment. The higher the ratio, the more likely the company is to charge. (8) SGAI (sales general administrative index) is the ratio of sales expenses, and general administrative expenses in the same year to the same ratio in the previous year or t-1.



According to Benish in Lutfiana (2017) financial statements with a value of M Benish more than 2.22 should be suspected of experiencing indications of financial statement fraud.

### **Fraud Diamond Theory**

Before the Theory of Fraud Diamond appeared, R Cressey (1973) has first sparked a theory that encourages someone to commit fraud, namely fraud triangle in which there are three elements that are now also in the element of fraud diamond, namely pressure, opportunity, rationalization. Then in 2004 emerged Fraud diamond theory that introduced by Wolfe and Hermanson, which is a new view of the phenomenon of fraud. The elements of fraud diamond theory are the same as triangle theory, there is only one additional element, namely: pressure, opportunity, rationalization and capability.

According to Rahmanti (2014) pressure is the encouragement of people to commit fraud. A common pressure for a company to manipulate its financial statements is a decline in the company's financial outlook. In SAS No. 99, there are four types of conditions common to pressure that can lead to fraud. These conditions are financial stability, external pressures, individual financial needs, and financial targets.

According to Elder et al. (2010) opportunity is a condition that provides an opportunity for management or employees to misrepresent financial statements. Opportunities can occur due to weak internal control, poor management oversight or through the use of positions. In SAS No. 99 mentions that opportunities on financial statement fraud can occur in three categories. These conditions are industrial conditions, the ineffectiveness of supervision, and organizational structure.

Skousen et al. (2008) stated that rationalization is the most difficult part of the fraud triangle to measure. Attitude or character is what causes one or more individuals to rationally commit fraud. Capability explained by Wolfe and Hermanson (2004) as a person's position in the organization that can provide the ability to take advantage of the opportunity to commit fraud. The traits described by Wolfe and Hermanson (2004) related to the element of capability in the actions of fraudsters are: Position/function, brains, confidence/ego, coercion skills, effective lying, immunity to stress.

### **Profit Management**

Scott (2003) states that profit management is an option taken by managers in terms of accounting policies to achieve some specific goal. Assih and Gudono (2000) stated that profit management is an intervention with a specific purpose in the external financial reporting process to obtain some private advantage as opposed to facilitating the neutral operation of the process.

While Setiawati and Na'im in Rahmawati et al. (2006) describing profit management as interfering in the external financial reporting process with the aim to benefit themselves and cited as factors that can reduce the credibility of financial statements because it adds to the bias of financial statements (Pratama, Kalbuana dan Utami, 2020; Yulistian, Kalbuana dan R., 2020; Arnas *et al.*, 2021).

### **Agency Theory**

Jensen and Meckling (1976) said that agency theory is a contract in which one or more principals hire another person (agent), to perform some services for their benefit by delegating some authority to make decisions to the agent. Hendriksen and Van Breda in Setyawati (2010) stated the concept of agency theory arises from the expansion of one individual actor of information economics into two individuals. One of the individuals becomes an agent for the other called the principal.

**Profitability**

According to Cashmere (2015) the profitability ratio is a ratio to assess a company's ability to make a profit or profit in a given period this ratio also provides a measure of the level of management effectiveness of a company shown from profits generated from sales or investment income. While according to Sartono (2012) (Santoso *et al.*, 2019; Nurwati, Prastio dan Kalbuana, 2021; Yohana *et al.*, 2021; Kalbuana, Suryati dan Pertiwi, 2022) profitability is a ratio that measures the company's ability to generate profits both in relation to sales, assets and profits for its own capital.

**Leverage**

Leverage is an entity's ability to pay off current debts or long-term debt, or the ratio used to assess the extent to which an entity is financed using debt (Wiagustini, 2010) (Widagdo, Kalbuana dan Yanti, 2020; Yanti *et al.*, 2020; Christelia *et al.*, 2021; Dewi *et al.*, 2021; Prasetyo *et al.*, 2021; Wangsih *et al.*, 2021; Setiorini *et al.*, 2022). The leverage ratio describes the source of the company's funds from the debt used for the company's operational activities. Skousen *et al.* (2008) stated that managers feel pressure as a result of the need to obtain additional debt or equity financing in order to remain competitive, finance is needed to expand factories and facilities therefore leverage is used as a proxy for external pressures.

**Diamond Fraud Elements Simultaneously Positively Affect Indications of Fraud In Financial Reporting**

In fraud diamond describes about the factors or impulses why people want to commit fraud so that by examining these factors can be known whether a person or a company is indicated to misstate in financial statements intentionally. According to JF Adebisi (2013) Fraud diamond theory helps forensic accounting in identifying and investigating an individual's fraud scheme, and also assesses the risk of fraud very effectively.

*H1. Diamond Fraud Elements Simultaneously Positively Affect Indications of Fraud In Financial Reporting.*

**Financial Stability Positively Affects Indications of Fraud in the Preparation of Financial Statements**

According to Aprilia (2017) financial stability is a situation that shows the company's financial condition is stable. SAS NO. 99 explains that managers face pressure to cheat financial statements when financial stability or profitability is threatened by economic conditions, industries and the conditions of operating entities. Skousen (2009) said that the form of fraud committed by management is related to the growth of the company's assets therefore financial stability can be projected by the percentage change in total assets (ROA). The higher the change in total assets, the higher the practice of fraud in financial statements.

*H2. Financial stability has a positive effect on indications of fraud in the preparation of financial statements.*

**Financial Pressure Positively Affects Indications of Fraud in the Preparation of Financial Statements**

According to Lutfiana (2017) financial pressure is pressure for companies to show good financial performance and increase from year to year, in this study financial pressure is projected using ROA.

*H3. Financial pressure positively affects indications of fraud in the preparation of financial statements*

**External Pressure Positively Affects Indications of Fraud in the Preparation of Financial Statements.**

External pressure is a condition in which the company gets pressure from external parties or outsiders of the company. The existence of such pressure makes the company need additional debt or a source of financing to keep the company competitive. External pressure in



this study using proxy ratio leverage (debt to equity), the ratio of leverage is calculated by dividing between total liabilities and total assets. If a company has a high leverage rate, then the company is considered to have high debt and credit risk as well. The high risk of credit is also the greater the concern of creditors to lend to companies for fear of bad credit and other possibilities. This is a concern for the company and can be the cause of financial statement fraud. Therefore, external pressure variables have a relationship with financial statement fraud.

*H4. External Pressure positively affects indications of fraud in the preparation of financial statements*

#### **Ineffective Monitoring Positively Affects Indications of Fraud in Financial Statements.**

Ineffective monitoring is the ineffectiveness of supervision and weak supervision of companies that can provide opportunities for fraud. With this weak supervision will be very easy for anyone related to financial statements to commit an act of fraud. Ineffective monitoring that can provide opportunities for company agents, namely distorted managers, because the company does not have a special supervisor who can monitor the performance of employees effectively. With the low or ineffectiveness of a supervision within the company, it is possible for employees or management to commit fraud.

*H5. Ineffective monitoring has a positive effect on indications of fraud in financial statements.*

#### **Nature of Industry Negatively Affects Indications of Fraud in Financial Statements.**

Skousen et al. (2008) revealed that the nature of industry is the ideal condition of a company or organization in the industry. One form of nature of industry is the condition of corporate receivables. A good company will reduce and reduce the amount of company receivables and increase the company's cash flow receipts. Accounts receivable accounts are often used by management in manipulating financial statements (Summer and Sweeney, 1998).

*H6. The nature of industry negatively affects indications of fraud in financial statements.*

#### **Rationalization Positively Affects Indications of Fraud in The Extension of Financial Statements**

Rationalization based on Task research (2012) states that top management has convinced themselves of what they are doing in the form of cheating behavior. In this case rationalization relates to the motivation of a manager in committing conscious cheating. According to Skousen et al. (2008) rationalization has a subjective assessment for the company, the subjective judgment and decision making will be reflected in the accrual value of the company, therefore rationalization is projected by TATA.

*H7. Rationalization has a positive effect on indications of fraud in the accounting of financial statements.*

#### **Change Of Director Positively Affects Indications of Fraud in Financial Statement**

What is meant by the change of directors is to use the change of directors as a proxy of capability to know indications of financial statement fraud. Changes in the board can lead to initial performance that is not maximal because it takes time to adapt.

*H8. Change of director positively affects indications of fraud in the financial statements*

## **METHOD**

In this study, the element of fraud diamond is projected with financial stability, financial pressure, external pressure, ineffective monitoring, nature of industry, rationalization and change of auditor. The population in this study was a state-owned company that published audited financial statements during 2016-2018. In this study, 96 samples were taken from 32 companies. Sample selection is done by purposive sampling method according to the specified criteria. Sample criteria used state-owned enterprises that publish audited financial statements throughout 2016 - 2018 and state-owned enterprises that have related data, receivables, sales,



cost of goods sold, assets, depreciation, other assets other than buildings and buildings, administrative and general costs, liabilities and cash flow.

This research used logistic regression analysis methods. Logistic regression is used in this study because the dependent variables used are dichotomous or quantitative data that use dummy variations (Ghazali, 2018). The test tool on this research is the SPSS program. To test whether the regression model used in this study is feasible or not for use, it is necessary to test classical assumptions.

**RESULT AND DISCUSSION**

Based on statistical data obtained through SPSS 25 software, descriptive analysis was carried out to provide an overview of the data in this study. Descriptive analysis of this study was conducted through the mean, median, minimum, maximum, and standard deviation of each research variable.

**Classic Assumption Test**

**Multicollinearity Test**

Multicollinearity tests are used to determine if cholera is found between free variables. In this model there should be no cholera among independent variables. In this study, the multicollinearity test used the method tolerance variance impact factor (VIF). To assess whether there is multicollinearity in the data in a way, if the tolerance value is greater than 0.10 then it can be said that there is no multicollinearity, or the VIF value is less than 10.0 then it can be said that there is no multicollinearity. The following are the results of the multicollinearity test (Ghazali, 2018).

**Table 1. Multicollinearity Test**

Model	Unstandardize		Standardized	T	Sig.	Collinearity Statistics	
	d Coefficients	Std. Error	Coefficients Beta			Tolerance	VIF
(Constant)	,138	,102		1,352	,180		
Financial Stabilty	,000	,000	-,093	-,931	,354	,988	1,012
Financial pressure	,002	,005	,037	,353	,725	,884	1,132
External pressure	-,001	,002	-,078	-,751	,455	,923	1,084
Ineffective monitoring	,004	,003	,162	1,564	,121	,920	1,087
Nature of Industry	-,001	,000	-,261	-2,585	,011	,973	1,028
Rationalization	,001	,001	,099	,934	,353	,883	1,132
Change of Directors	,001	,001	,108	1,057	,293	,945	1,058

Based on the table above it can be seen that all the variables studied have a tolerance value greater than 0.10 and a VIF value of less than 10, so it can be concluded that there is no multicollinearity.

**Heteroskedasticity Test**

The heteroskedasticity test on this study used the Rank Spearman method. Heteroskedasticity tests are shown to determine whether there are data or variables that experience heteroskedasticity. Good data or variables are those that do not experience heteroskedasticity. Here are the results of the heteroskedasticity test (Ghazali, 2018).



**Table 2. Heteroskedasticity Test**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	,319	,048		6,682	,000
Financial stability	,000	,000	-,210	-2,125	,036
Financial pressure	,001	,002	,052	,499	,619
External pressure	-,001	,001	-,192	-1,874	,064
Ineffective monitoring	,002	,001	,142	1,384	,170
Nature of Industry	,000	,000	-,158	-1,589	,116
Rationalization	,000	,001	,039	,369	,713
Change of Directors	,000	,000	,101	1,004	,318

Based on the table above it can be seen that the significant value of each variable studied is more than 0.05 except the variable financial stability it can be concluded that heteroskedasticity occurs. Therefore, data transformation is carried out with logarithms, which aim to minimize the scale between free variables. Here are the results of heteroskedasticity tests after data transformation:

**Table 3. Heteroskedasticity Test After Data Transformation**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	,132	,166		,797	,431
Financial pressure	,002	,009	,037	,222	,826
External pressure	-,002	,002	-,266	-	,180
Ineffective monitoring	-,004	,002	-,300	1,370	,103
Rationalization	,000	,001	,060	1,678	,761
Change of directors	,001	,001	,100	,307	,561
Financial stability	-,012	,109	-,020	,588	,910
Nature of industry	,071	,066	,191	-1,113	,295

Based on the table above all variables have a significant value above 0.05 so it can be concluded that heteroskedasticity occurs.

**Normality Test**

According to Roscoe in Nurudin et al. (2014) the common reference for determining a good sample size i.e. (1) Sample size over 30 and less than 500 is appropriate for most studies (2) If the sample is broken down into subsample the minimum sample size is 30 for each category is appropriate. (3) In multivariate studies (including multiple regression analysis), the sample size should be 10 times greater than the number of variables in the study. (4) For simple experimental research with strict experimental control, a successful study is possible with a small sample size between 10 to 20. Based on this, the sample used in this study has met the requirement of having 32 samples (n = 96), which can be interpreted as a good sample.



**Autocorrelation Test**

The autocorrelation test aims to test whether in a linear regression model there is a correlation between a nuisance error in the t period and a bully in the t-1 period. Autocorrelation arises because successive observations over time are related to each other. There are several ways that can be used to detect autocorrelation, one of which is with the durbin-watson test. Here are the results of the autocorrelation test with the Durbin-Watson test (dw test).

**Table 4. Autocorrelation Test**

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,357 <sup>a</sup>	,127	,058	,43866	2,040

Based on the results of the autocorrelation test above, dw value of 2,040 this value will be compared by using a table using a significant value of 5%, sample number 96 (n) and number of independent variables 7 (k = 7), then in the durbin watson will be obtained the following values:

**Tabel 5. Durbin Watson**

K=7		
N	DL	DU
96	1.512	1.8265

Since the value DW 2.040 is greater than the limit (du) of 1.8265 and less than 4-18265 (4-du), it can be concluded that there is no positive or negative autocorrelation or it can be concluded that there is no autocorrelation.

**Koefesien Determination (Nargerkerke Rsquare)**

**Table 6. Model Summary Nergelkerke Rsquare**

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	92,984 <sup>a</sup>	,197	,284

Based on the results of the coefficient of determination in the table above shows that the dependent variables that can be explained by independent variables amount to 28.4%, and the remaining 71.6% are explained by other variables outside this research model.

To test whether or not a hypothesis is simultaneously accepted by using the omnibus of model coefficients. To show a hypothesis is accepted or not by looking at significance. If the value of significance is greater than the value of probability, then the hypothesis is rejected. However, if the sig value is less than the probability value, the hypothesis is accepted.

**Table.7 Omnibus Test Of Model Coefficients**

Omnibus Tests of Model Coefficients				
		Chi-square	Df	Sig.
Step 1	Step	21,089	7	,004
	Block	21,089	7	,004
	Model	21,089	7	,004



**H1: The Diamond Fraud Element Simultaneously Positively Affects Indications of Fraud in Financial Reporting.**

In the results that can be seen in the table that the sig value is 0.004 where the value is less than the probability value of 0.050. Since the sig value is less than its probability value ( $0.004 < 0.050$ ) the hypothesis is accepted. Based on the results of this study, the elements of diamond fraud have an effect simultaneously on indications of fraud in financial reporting.

Logistic regression models can be formed by looking at the estimated value of parameters in Variables in The Equation. In the table Variables in The Equation is also used to find out whether the hypothesis is partially accepted or not by comparing the value of the Sig with the probability of 0.05. If the sig value is greater ( $>$ ) than the probability value then the hypothesis is rejected, however, if the value of the sig is smaller ( $<$ ) the probability value then the hypothesis is accepted. Therefore, the results of the hypothesis are partially as follows:

**Table 8. Logistic Regression Test**

		Variables in the Equation							
		B	S.E.	Wald	Df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step <sub>1</sub> a	Financial stability	-,002	,004	,420	1	,517	,998	,990	1,005
	Financial Pressure	,018	,025	,525	1	,469	1,018	,969	1,070
	External Pressure	-,009	,013	,480	1	,488	,991	,966	1,017
	Ineffective monitoring	,027	,017	2,507	1	,113	1,028	,993	1,063
	Nature of industry	-,029	,010	8,677	1	,003	,971	,952	,990
	Rationalization	,008	,007	1,548	1	,213	1,008	,995	1,021
	Change of directors	,006	,005	1,188	1	,276	1,006	,995	1,017
	constant	-2,110	,719	8,605	1	,003	,121		

**H2: Financial Stability Positively Affects Indications of Fraud in The Preparation of Financial Statements.**

Based on the above results obtained the value of financial stability significance of 0.517 which means greater than the significance level of 0.05, thus the hypothesis is rejected, this strengthens previous research conducted by Oktarigusta (2017). According to Skousen et al. (2008) The rapid growth in the company signifies manipulation. However, in the results of the study, the company's financial condition was obtained in a stable condition. In the sample of companies indicated fraud there was no drastic increase in the growth of the company.

**H3: Financial Pressure Positively Affects Indications of Fraud in The Preparation of Financial Statements.**

Based on the above results obtained a financial pressure significance value of 0.469 which means greater than the significance level of 0.05 thus the hypothesis is rejected, this strengthens previous research conducted by Oktarigusta (2017). According to Daniel et al. (2017) if the ROA in the company has shown good performance results, then these companies do not have the possibility to commit fraud. ROA in companies used as samples has a positive average value, and in research on companies that indicated fraud obtained a positive ROA value means that ROA has no effect on indications of fraud.

**H4: External Pressure Positively Affects Indications of Fraud in The Preparation of Financial Statements.**

Based on the above results obtained the significance value of external pressure of 0.488 which means greater than the significance level of 0.05 thus the hypothesis is rejected, which reinforces previous research conducted by Oktarigusta (2017). According to Benish (2017) if the leverage ratio shows a value of more than 1, then it reflects the occurrence of financial statement fraud. But in the companies used as samples in this study did not get a value of more than one but still obtained results indicated fraud by benish m-score therefore External pressure has no effect on indications of fraud.

**H5: Ineffective Monitoring has a Positive Effect on Indications of Fraud in Financial Statements.**

Based on the above results obtained the significance value of Ineffective monitoring of 0.113 which means greater than the significance level of 0.05 thus the hypothesis is rejected. This study is contrary to the research conducted by Oktarigusta (2017). According to Lutfiana (2017) if the number of independent commissioners goes up then the possibility of financial statement fraud falls, if the number of independent commissioners falls then the likelihood of financial statement fraud will go up. But the company based on the results of the study obtained the results that the average total board of independent commissars in state-owned enterprises above 50% with a value of 66%. That means the large number of independent commissioners does not affect indications of fraud.

**H6: Nature of Industry Positively Affects Indications of Fraud in Financial Statements.**

Based on the above results obtained the nature of industry signification value of 0.003 which means smaller than the significance level of 0.05 thus the hypothesis is accepted. This research is contrary to the previous research, Oktarigusta (2017). According to Daniel et al. (2017) receivables in income become a significant aspect that affects fraud, the higher the portion of receivables in income, the higher the fraud, but in the results of the study obtained the average amount of receivables is below 10%. In companies that indicated fraud the value of receivables is not more than 10% of the value of sales this proves that in this study the nature of industry has no effect on indications of fraud.

**H7: Rationalization has a Positive Effect on Indications of Fraud in The Financial Statements.**

Based on the results above Rationalization gets a significance value of 0.213 which is greater than the significance level of 0.05 thus the hypothesis is rejected. This study contradicts previous research conducted by Oktarigusta (2017). According to Lutfiana (2017) if the discretionary accrual value falls then the possibility of financial statement fraud falls, and vice versa. but the concept of discretionary accrual on variables that have been calculated on average is negative value means the possibility of fraud in the financial statements does not exist. In companies induced by fraud, the discretionary accrual value is negative.

**H8: Change of Director Positively Affects Indications of Fraud in Financial Statements**

Based on the results above, the change of director gets a significance value of 0.276 which means greater than the significance level of 0.05 thus the hypothesis is rejected. This study strengthens previous research conducted by Oktarigusta (2017). Wolf Hermanso (2004)



said that the change of directors will cause a period of stress that has an impact on the increasingly openness of fraud. The results of the study found that the change of directors that occurred in state-owned enterprises was a rotation not a change due to job cuts.

## CONCLUSION

Of the seven variables used to examine the influence of diamond fraud elements on indications of fraud in state-owned enterprises, there is one variable, which is the nature of industry that positively affects the indication of fraud in the financial statements of state-owned enterprises, while the other 6 variables namely financial stability, financial pressure, external pressure, ineffective monitoring, rationalization and change of director have no effect on the indication of report fraud finance to state-owned enterprises.

The contribution to this study is theoretically providing insight into assessing factors and risks of indications of fraud that may occur in a company but has not been revealed. And can be used as motivation and reference for companies and interested parties to be more conservative about factors and risks that have indications of fraud so that financial statement information is more reliable. In addition, this research can be used as a reference material for consideration and thought in subsequent research in the same field.

The sample used in this study was only 32 state-owned sector companies in accordance with the research criteria of 115 state-owned enterprises with different sectors so that the results of the study could not be generalized. The adjusted R square value in this study was 0.284, therefore it is necessary to increase the number of sample companies. In this study only used a span of 3 consecutive years, namely from 2016-2018, so it is necessary to add to the observation period.

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