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FRAUDULENT FINANCIAL REPORTING AND FRAUD PENTAGON MODEL

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ABSTRACT

This research aims to prove empirical evidence of the influence of fraudulent financial reporting factors with the fraud pentagon model approach, such as Pressure (financial targets, financial stability, external pressure), Opportunity (ineffective monitoring, nature of industry), Rationality (the change of auditors), Capability (change of directors) and Arrogance (the number of CEO's picture) on fraudulent financial reporting. The sample method of this study used purposive sampling method and produces 213 data or 71 manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2021. The data has been obtained then analyzed using the multiple regression method.. The results of this study prove that external pressure and change of directors has effect on fraudulent financial reporting, while financial targets, financial stability, ineffective monitoring, nature of industry, the change of auditors (KAP), and the number of CEO's picture have no influence on fraudulent financial reporting. The results of this study have implications for the theory of fraudulent financial reporting by investigating fraud indicators in CrowI's fraud theory or strengthening the Pentagon Fraud Theory. Practical implications, this study has significant implications for auditors, regulators, creditors and shareholders. The findings indicate that external pressure (leverage) and capability (change of directors) can be used to detect fraud in financial statements.

Keywords: *Fraudulent Financial Reporting, Fraud, Pentagon Theory*

INTRODUCTION

High-quality financial reporting free from fraud is crucial for businesses and stakeholders. Creative accounting practices, which manipulate financial information can negatively impact reporting quality ulent financial reporting, often involving manipulation or misrepresentation of financial data, is a key aspect of organizational fraud. It can include actions like inflating earnings, hiding liabilities, or falsifying expenses. Fraudulent financial reporting poses significant risks to stakeholders and market integrity. Research indicates that abusive earnings management significantly influences financial statement fraud (Tarjo et al., 2022).

In Indonesia, fraudulent financial reporting has occurred several times and an example is PT Garuda Indonesia Tbk (GIAA) in 2018. Garuda surprisingly scored a net profit of US $ 809.84 thousand or IDR 11.33 billion at the exchange rate at that time IDR 14000 per US dollar after some 2 years previously experiencing losses. The cooperation transaction with PT Mahata Aero Teknologi was disclosed in the Annual General Meeting of Shareholders (AGMS) and was recorded by management as other income rather than receivables. The profit from the transaction was received by Garuda in the form of US$239,940 million, of which a portion of US$28,000 million was profit sharing with PT Sriwaya Air.

Fraud pentagon theory can help detect fraudulent financial reporting by considering factors such as pressure, opportunity, rationalization, capability, and arrogance (Maulidiana & Triandi, 2020; Sari & Subkhi, 2021; Dani et al., 2022) Research indicates that detecting and mitigating these practices can be enhanced by using structured fraud detection models like the Pentagon Model (Situngkir & Triyanto, 2020). Research shows that external pressure consistently has a significant effect on fraudulent reporting across different sectors (Achmad & Pamungkas, 2019; Puspitha & Yassa, 2018; Situngkir & Triyanto, 2020).

However, findings on other factors are mixed. While some studies found that pressure indicators such as financial stability have a positive effect on fraudulent financial reporting (Apriliana & Agustina, 2017), in contrast (Sari & Subkhi 2021) and Sari et al. (2020) provide evidence that they have a negative and significant effect on fraudulent financial reporting. Financial targets generally showed no significant effect on fraud (Yuniasih et al., 2020); (Siswantoro, 2020); 17), other side Sari & Subkhi 2021) shows that financial targets (pressure) significantly affect Financial Statement Fraud. Arrogance indicators such as frequent CEO pictures to be influential (Puspitha & Yassa, 2018); (Apriliana & Agustina, 2017), others reported no significant effect (Achmad & Pamungkas, 2019); Situngkir & Triyanto, 2020). Rationalization showed a significant effect in some studies (Achmad & Pamungkas, 2019). Financial stability and family firm status have also been identified as potential fraud indicators (Situngkir & Triyanto, 2020). The results of the study (Maulidiana & Triandi, 2020) indicate that all independent variables (opportunity, pressure, rationalization, competence, and arrogance) simultaneously have a significant effect on fraudulent financial reporting.

The inconsistent results across studies suggest that the effectiveness of the deception pentagon model may vary depending on the specific context and measures used, signalling the need for further research in this area. This study is intended to fill the research gap where research using the Pentagon Fraud Model approach is still limited and provides mixed research results. This research also aims to strengthen the fraud pentagon model.

This study contributes to the literature on the relationship between the fraud pentagon and financial statement fraud. This study also provides empirical evidence for management regarding the factors associated with financial statement fraud. Auditors, regulators, boards of commissioners and investors can use the results of this study as a basis for consideration in anticipating fraud by using the right strategy. This study proposes to provide empirical evidence of the influence of fraudulent financial reporting factors, such as: financial targets, financial stability, external pressure, ineffective monitoring, nature of industry, the change of auditors, change of directors, and the number of CEO's picture of fraudulent financial reporting. The results of this study are expected to be useful for auditors, and the following research.

The paper is organized as follows Section 2 presents the relevant literature and develops the hypotheses. Section 3 describes the data and methodology. Section 4 analyzes the results of the study and section 5 conclusions.

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory is a contract between agents (corporate management) and a few principals (bankers, shareholders, and employees), so that corporate management wants to get optimal contributions from each principal. Desired contributions such as low interest rates from bankers, high share prices for shareholders, and low wages for employees (Hayes et al. 2015). An agency relationship, conflict will arise between the principal and the agent in terms of goal inequality. This conflict of interest can create opportunities for fraudulent activities, including financial misreporting, as managers may manipulate financial statements to enhance their personal compensation or to meet performance targets (Sari et al., 2020). Therefore, agency theory emphasizes the importance of separating ownership from control to create efficiency and effectiveness in carrying out its functions. These problems lead to agency costs. Agency costs consist of monitoring costs, bonding costs, dan residual loss (Jensen & Meckling, 1976).

Pentagon Fraud Theory

Fraud theory begins with the fraud triangle theory discovered by Cressey's (1953) which states that the fraud triangle has three elements that are indicated to cause fraud, i.e.: pressure, opportunity, and rationalization. Then Wolfe and Hermanson (2004) added the capability element, saying that the addition of this element was necessary because there must be someone with the ability to commit this fraud and smart enough to understand and take advantage of weaknesses in internal control. The Pentagon Fraud Theory was coined by Crowe Horwath in 2011. This theory expands on the Fraud

Triangle theory previously put forward by Cressey in 1953, by adding two elements, namely competence and arrogance. Arrogant is included because of the behavior of a person who feels the most superior and greedy and confident if internal control does not apply to him (Sari et al., 2020). The Pentagon Fraud Model, there are 5 (five) elements, namely opportunity, pressure, rationalization, competence, and arrogance (Maulidiana & Triandi, 2020).

Fraudulent Financial Reporting

Statement of Audit Standards (SAS) Number 99, Financial misstatements can be categorized into two types: errors and irregularities (fraud). Errors are unintentional misstatements, while fraud are intentional in nature (Othman, 2021). According to IAPI (2014), fraud is an act of fraud committed by a person or group of people who commit deception to gain personal gain illegally and unfairly. One of the frauds is fraudulent financial reporting. Fraudulent financial reporting is intentional misrepresentation or omission or disclosure of a number of financial statements designed to deceive users of financial statements which results in the financial statements not being presented, in all material respects, in accordance with generally accepted accounting principles.

Financial Targets (Internal Pressure) and Fraudulent Financial Reporting

Generally, in every company, company managers will be given higher target expectations if the targets from the previous year were achieved. Therefore, the company emphasizes to its managers to perform all activities optimally and maximally so that this year's targets are achieved. This results in stress due to the high or very high pressure set by the company's targets. Achmad & Pamungkas (2019) Fraud can occur due to pressure from principals on management to maximize profits for the welfare of shareholders. This encourages managers to do everything possible including fraud in financial statements in order to fulfill the wishes of shareholders. Biduri & Tjahjadi (2024); Devi et al. (2021) and Apriliana & Agustina (2017) found financial targets have a positive influence on fraudulent financial reporting. The predetermined target pressures management to achieve those targets, and if management succeeds, they receive bonuses, which may lead them to engage in fraudulent actions. Based on the above literature, the hypothesis in this study is formulated as follows:

Hypothesis 1: There is an influence of financial targets on fraudulent financial reporting.

Financial Stability (Internal Pressure) on Fraudulent Financial Reporting

Maintaining financial stability for a company is challenging, and many companies struggle to achieve this. Therefore, managers may attempt to manipulate financial statements to make the company appear more promising and shielded from threats that jeopardize financial stability. This also allows them to alleviate the pressure they face (Skousen et al. 2009; Annisya et al., 2016). According to (Annisya et al., 2016), when a company's finances are unstable due to economic factors, industry conditions, or unforeseen circumstances, it can trigger management to engage in fraud. This is because if the company's performance declines and investors perceive it negatively, it creates pressure on management to manipulate financial statements to present a favorable picture (Apriliana & Agustina, 2017). Pressure on management to maintain the company's financial condition to remain stable encourages management to commit fraud by manipulating the company's financial statements (Situngkir & Triyanto, 2020). Financial stability is shown to have a negative and significant effect on fraudulent financial reporting (Sari et al., 2020;Apriliana & Agustina, 2017). Based on the above literature, the hypothesis in this study is formulated as follows:

Hypothesis 2: There is an influence of financial stability on fraudulent financial reporting.

External Pressure on Fraudulent Financial Reporting

Excessive pressure on management can lead to fraud through various violations and material (Tiffani & Marfuah, 2009). External creditors, including lenders and investors often put significant pressure on companies to meet certain financial targets. This pressure can lead to a variety of manipulative practices in financial reporting, as companies strive to present favorable financial results to satisfy these external stakeholders (Safiq & Seles, 2019). Companies with high levels of leverage will have difficulty obtaining more credit in the future or even default on their debt, so managers tend to manipulate (Gem Sari & Akbar Subkhi, 2021).While some studies found that external pressure significantly affects fraudulent reporting (Yuniasih et al., 2020; Safiq & Seles, 2019). Based on the above literature, the hypothesis in this study is formulated as follows:

Hypothesis 3: There is an influence of external pressure on fraudulent financial reporting.

Ineffective Monitoring (Opportunity) on Fraudulent Financial Reporting

Managers will easily commit fraud if the company's supervision is not effective against management. Ineffective monitoring significantly contributes to the risk of fraudulent financial reporting (Achmad & Pamungkas, 2019). To reduce opportunities for fraudulent practices, sufficient oversight of management required (Lou & Wang, 2011). Company supervision is expected to be more effective with an independent board of commissioners independent, and fraudulent practices will be reduced. (Skousen et al. 2009). Devi et al. (2021) state the increase in fraud is due to the lack of independent board members overseeing the company's operations, thereby creating opportunities for fraud. A higher proportion of independent board members in a company reduces the potential for management to engage in fraudulent financial reporting (Tiffani & Marfuah, 2009; (Puspitha & Yassa, 2018). Puspitha & Yassa (2018) and (Prasmaulida, 2016) found that ineffective monitoring has a significant impact on fraudulent financial reporting. Based on the above literature, the hypothesis in this study is formulated as follows:

Hypothesis 4: There is an influence of ineffective monitoring on fraudulent financial reporting.

Nature of Industry (Opportunity) on Fraudulent Financial Reporting

Opportunities for fraud can be in the form of the nature of the industry which provides opportunities for fraud in terms of accounting complexity and estimates involving subjective judgment (Puspitha & Yassa, 2018). Estimation judgments, such as inventory obsolescence and bad debts allow management to manipulate financial reporting (Akbar, 2017; Summers & Sweeney, 1998). With this opportunity, the possibility of fraudulent financial reporting will be higher. This is because inventory is a current asset that is vulnerable to theft and fraud because inventory in a company is usually large and has a large influence on the balance sheet and income statement (Ardiyani & Sri Utaminingsih, 2015). Based on the above literature, the hypothesis in this study is formulated as follows:

Hypothesis 5: There is an influence of the nature of the industry on fraudulent financial reporting

The Change of Auditors (Rationality) on Fraudulent Financial Reporting

Auditor turnover can predict fraudulent financial reporting. Factors that cause financial statement fraud that originate from rationalization is related to the existence of a bad relationship between management and auditors (Puspitha & Yassa, 2018). Changes in auditors made by a company can be an indication of fraud, as the company may use auditor changes to cover up previous findings by auditors (Novitasari and Chariri, 2019). Auditor changes are used to cover up traces The fraud detected by the previous auditor may be hidden, and the new auditor takes time to understand the condition of the company and detect fraud that has been hidden by the company (Devi et al., 2021; Achmad & Pamungkas, 2019). Puspitha & Yassa (2018) and Lou & Wang (2011) states that auditor changes are based on fraudulent financial reporting. Based on the above literature, the hypothesis in this study is formulated as follows:

Hypothesis 6: There is an influence of the change of auditors (Public Accounting Firm) on fraudulent financial reporting.

Change of Directors (Capability) on Fraudulent Financial Reporting

Changing the board of directors can be the company's effort to improve the performance of the previous directors by changing the composition of the board of directors or recruiting new directors who are considered more competent Achmad & Pamungkas, 2019). Changing from an old director to a new director can cause stress for the new director due to the transfer of authority and the need to adapt to various aspects. During this adaptation period, if the new director is unable to exercise authority effectively, they might take advantage of the opportunity to commit fraud to address deficiencies in the previous management or improve their own poor performance. Directors are also among the highest positions in an organization and have the ability to create or exploit opportunities for fraud, especially when they have significant influence, particularly in certain situations (Devi et al., 2021). Based on the above literature, the hypothesis in this study is formulated as follows:

Hypothesis 7: There is an influence of the change of directors on fraudulent financial reporting

The Number of CEOs' Pictures (Arrogance) on Fraudulent Financial Reporting

The CEO will be seen as increasingly arrogant as more pictures of the CEO appear in the financial statements. The CEO's desire to show off the many strata he has in the organization in order to become more famous Achmad & Pamungkas, 2019). The repeated display of the CEO's photo in annual financial reports can make the CEO feel arrogant and superior, leading them to believe that internal controls alone cannot work against them due to their status (Novitasari and Chariri, 2019). Therefore, the CEO may resort to any means to maintain their status and position. This statement aligns with the findings of (Apriliana & Agustina, 2017). A very arrogant attitude can lead to the possibility of fraud (Achmad & Pamungkas, 2019); (Nugroho et al., 2021). Based on the above literature, the hypothesis in this study is formulated as follows:

Hypothesis 8: There is an influence of The Number of CEOs' Pictures on fraudulent financial reporting

RESEARCH METHOD

Sample Selection Method and Data Collection

The research object uses a population of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2021. This study employs a purposive sampling method. Using purposive sampling, the study obtained a sample of 71 manufacturing companies and a total of 213 data that can be used for the research sample.

ENDOGENOUS VARIABLES

Fraudulent Financial Reporting

Fraudulent Financial Reporting (FFR) refers to the deliberate misstatement of financial statements regarding the economic condition of a company by either misstating or omitting financial information or disclosures to confuse users of the financial statements in their future decision-making (Akbar, 2017). Fraudulent Financial Reporting (FFR) used fraud score model as established by Dechow et al. (2012). F-scores are highly accurate in predicting FFR (Annisya et al., 2016)

$$F - Score = Accrual\ Quality + Financial\ Performance$$

In the F-Score formula, there are two required components: accrual quality and financial performance (Skousen dan Twedt, 2009). The calculation of the F-Score formula will be detailed as follows:

Accrual quality:

$RSSTAcrual$ = ΔWC+ ΔNCO+ ΔFIN
Average Total Assets

WC = Working Capital
$Current\ Assets - Current\ Liability$

NCO = Non Current Operating Accrual
$(Total\ Assets - Current\ Assets — Investment\ and\ Advances) — (Total\ Liabilities — Current\ Liabilites — Long\ Term\ Debt)$

FIN = Financial Accrual
$Total\ Investment - Total\ Liabilities$

Average Total Assets = Beginning Total Assets+Ending Total Assets 2

Financial perfomance = $Change\ on\ Receivable + Change\ on\ Inventories + Change\ on\ Cash\ Sales + Change\ on\ Earnings$

$Change\ on\ Receivables$ = ΔReceivables Average Total Assets

$Change\ on\ Inventories$ = ΔInventories Average Total Assets

$Change\ on\ Cash\ Sales$ = ΔSales − Sales (t) ΔReceivables Receivable (t)

$Change\ on\ Earnings$ = Earnings (t)− Average Total Assets (t) Earnings (t–1) Average Total Assets (t–1)

EXOGENOUS VARIABLES

Financial Targets

The financial target in this study uses the Return On Asset (ROA) formula. The ROA ratio is used to measure the company's ability to generate net profit after tax. Higher ROA indicates a greater likelihood of fraud through significant ROA differences (Skousen et al., 2009).

Financial Stability

Pressure to maintain financial stability is a factor that makes management highly frustrated, especially when the company is threatened in various aspects (Tiffani & Marfuah, 2009). Financial stability measured by the change in assets.

External Pressure

External Pressure refers to pressure from outside the company that forces management to seek additional loans or financing from external sources in order to keep the company competitive (Skousen et al. 2009). External pressure is measured by leverage or the ratio of total debts to total assets.

Ineffective Monitoring

One form of opportunity for committing fraud is a lack of effective oversight, necessitating the presence of an independent board of commissioners to assist with supervision (Devi et al., 2021). Ineffective monitoring is represented by the number of independent commissioners divided by the number of commissioners.

Nature of Industry

(Summers & Sweeney, 1998) who examined both the accounts receivable and inventory found that only inventory accounts are able to distinguish between companies that committing fraud and not committing commit fraud. In this study, the nature of the industry is measured by changes in inventory divided by changes in sales.

The Change of Auditors

Companies that commit fraud often cover their tracks by changing auditors (Devi et al., 2021). This study uses the change of auditors (Public Accounting Firm) as a variable dummy.

The Change of Directors

Changing directors presents a dual perspective: on one hand, it can improve company performance, but on the other hand, it creates a period of stress for the new director, who might engage in fraud to address issues from the previous director. Naturally, such actions are more likely to be carried out by individuals who are competent or possess the necessary skills. Capacity to commit fraud (Devi et al., 2021). Change of directors measured by dummy variable.

The Number of CEO's Picture

The frequent appearance of CEO images can make some individuals feel arrogant, and often, to maintain their position, they may be willing to commit fraudulent financial reporting and indirectly become one of the indicators of arrogance (Akbar, 2017). This variable is measured by counts the number of CEO images in the financial statements.

Table 1 presents more detailed operational definitions for exogenous variables.

Table 1 Operational Definition of Exogenous Variables

Variabel	Formula
Indicators of Pressure	
Financial Targets	$ROA = \frac{Earning\ after\ tax}{Total\ Assets}$
Financial Stability	$ACHANGE = \frac{Total\ Assets_{\ t} - Total\ Assets_{\ t-1}}{Total\ Assets}$
External Pressure	$LEV = \frac{Total\ Liabilities}{Total\ Assets}$
Indicator of Opportunities	
Ineffective Monitoring	$BDOUT = \frac{Total\ \ Number\ of\ Independent\ Commissioner\ Board}{Total\ of\ Number\ Commissioner}$
Nature of industry	$INVENTORY = \frac{Inventory_t - Inventory_{t-1}}{Sales_t - Sales_{t-1}}$
Indicator of Rationality	
Change Of Auditors	ΔCPA Dummy Variabel $1 = If\ there\ was\ a\ change\ in\ the\ Public\ Accounting\ Firm$ $0 = If\ there\ was\ no\ change\ in\ the\ Public\ Accounting\ Firm$
Indicator of Capability	
Change Of Directors	DCHANGE Dummy Variabel $1 = If\ there\ was\ a\ change\ in\ the\ director\ structure$ $0 = If\ there\ was\ no\ change\ in\ the\ director\ structure$
Indicator of Arrogance	
The Number Of CEO's Picture	CPIC $= Total\ numbers\ of\ CEO's\ picture\ that\ shown\ in\ financial\ reporting$

Source: Author

ANALYSIS

The objects in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2018-2021. The sample was selected using purposive sampling technique with the criteria described below**.**

Table 2 Sample Selection Procedure

	Sample Criteria	Number of Companies	Amount of Data
1.	Manufacturing companies consistently listed on the Indonesia Stock Exchange (IDX) form 2018 to 2021	164	492
2.	Manufacturing companies that inconsistently issue financial statements ending on December 31st each year from 2018 to 2021	(11)	(33)
3.	Manufacturing companies that consistently use Indonesian Rupiah in their financial statements from 2018 to 2021.	(28)	(84)
4.	Manufacturing companies that consistently earned profits from 2018 to 2021	(54)	(162)
	Number of research samples	71	213

Source: Data Collection Results from The Indonesia Stock Exchange (BEI)

Research data that meet the criteria as much as 213.

Below are the results from the descriptive statistics:

Table 3 Descriptive Statistics

	Variable	Data	Mean	Std Deviation	Minimum	Maximum
1.	FFR	213	0,08694	0,297282	-1,174	1,810
2.	ROA	213	0,07947	0,072289	0,000	0,416
3.	ACHANGE	213	0,7020	0,131841	-0,445	0,716
4.	LEV	213	0,38397	0,182125	0,063	0,928
5.	BDOUT	213	0,38181	0,135872	0,000	0,833
6.	INVENTORY	213	-0,00268	0,053204	-0,231	0,167
7.	ΔCPA	213	0,13	0,333	0	1
8.	DCHANGE	213	0,42	0,494	0	1
9.	CPIC	213	4,38	6,051	0	49

Source: SPSS data processing results

Table 3 shows that the minimum value of Fraudulent Financial Reporting (FFR) is -1.174, the maximum is 1.810, and the average is 0.08694.

Based on multiple linear regression testing, the hypothesis test results are shown in the table 4 below:

Table 4 Hypotheses Testing Result

Variable	**B**	***Sig.***
(Constant)	0,247	0,004
ROA	0,043	0,885
ACHANGE	-0,023	0,884
LEV	-0,242	0,034*
BDOUT	-0,116	0,453
INVENTORY	-0,731	0,060
ΔCPA	-0,064	0,298
DCHANGE	-0,082	0,049*
CPIC	0,004	0,317

Source: SPSS data processing results

Based on table 4 show that Financial targets (ROA) has a significance value of 0.885, which is greater than 0.05. This means that H1 is not accepted, or that financial targets (ROA) do not have an effect on fraudulent financial reporting. The results of this study are consistent with Sabatian & Hutabarat, (2020), Sari et al., (2020).This study is different from the findings with Nugraheni & Triatmoko, (2018). Financial stability has a significance value of 0.884, which is greater than 0.05. This means that H2 is not accepted or that pressure which is represented by financial stability does not have an effect on fraudulent financial reporting. Sabatian & Hutabarat, (2020) and Nugraheni & Triatmoko (2018), where the results of his research also showed that financial stability has no significant effect on fraudulent financial reporting. This result not consistent with Pramono Sari et al., (2020), Apriliana & Agustina (2017) and Annisya et al. (2016).

External pressure has a significance value of 0.034, which is less than 0.05. This means that H3 is accepted or that external pressure has a negative effect on fraudulent financial reporting. The coefficient value shows -0.242, this provides evidence that the stronger the external pressure, this will reduce management for fraudulent financial reporting. This results of this study are in line with Nugraheni & Triatmoko (2018) and Achmad & Pamungkas (2019) but not consistent with Sabatian & Hutabarat (2020), Utami & Pusparini (2019), and Gem Sari & Akbar Subkhi (2021).

The t-test results also show that ineffective monitoring, which symbolizes opportunity has a significance value of 0.453, which is greater than 0.05. This means that H4 is not accepted, or that ineffective oversight by independent commissioners is not effective and has no effect on fraudulent financial reporting. The results of this study confirm with which shows (Sabatian & Hutabarat, 2020; Nugraheni & Triatmoko, 2018; Apriliana & Agustina, 2017). Sari et al., (2020) shows different results where ineffective monitoring has an impact on fraudulent financial reporting. Nature of industry has a significance value of 0.060, which is greater than 0.05. This means that H5 is not accepted or that the nature of the industry representing opportunity has no effect on fraudulent financial reporting.

Rationality which is represented by the change of auditors has a significance value of 0.298, which is greater than 0.05. This means that H6 is not accepted or that the change of auditors (Public Accounting Firm) does not have an effect on fraudulent financial reporting. The results of this study are consistent with research conducted by Pramono Sari et al. (2020) dan Nugraheni & Triatmoko (2018). Utami & Pusparini (2019) show different results where change of auditors have an effect on fraudulent financial reporting.

Capability proxied by the change of directors has a significance value of 0.049, which is less than 0.05. This means that H7 is accepted, or that the change of directors has an effect on fraudulent financial reporting. The unstandardized coefficient (B) is -0.064, indicating that this indicates that the change of directors has a negative effect on fraudulent financial reporting. Changing the CEO will reduce management's incentive to commit fraud and reduce the level of fraudulent financial reporting. The results of this study support Achmad & Pamungkas (2019) and Utami & Pusparini (2019) but on the other hand this Utami & Pusparini (2019) but on the other hand this research contradicts with the statement that change of directors has the potential cause fraud (Ahmad et al 2022; Utami, 2019;Nugraheni & Triatmoko, 2018; Harman & Bernawati, 2021). These findings do not support research conducted with Annisya et al. (2016) and Apriliana & Agustina (2017).

Hypothesis testing of arrogance proxied by number of CEO pictures has a significance value of 0.317, which is greater than 0.05. This means that H8 is not accepted or that the number of CEO's pictures does not have an effect on fraudulent financial reporting. The results of this study are consistent with (Utami & Pusparini, 2019; Sari & Subkhi, 2021; Apriliana & Agustina, 2017). Achmad & Pamungkas (2019) show different results that the number of CEO pictures (arrogance) has an effect on fraudulent financial reporting.

CONCLUSION

This study successfully shows that external pressure and change of directors (capability) as indicators of the pentagon fraud theory have proven to have an influence on fraudulent financial reporting. The findings of this study suggest that increased external monitoring can prevent fraudulent practices by emphasizing the importance of transparency in financial disclosures (Achmad & Pamungkas, 2019); (Puspitha & Yassa, 2018). The results also confirm that CEO turnover is a significant factor in detecting fraudulent financial reporting. This proves that replacing directors with better capabilities than the previous leadership can mitigate the risk of financial reporting fraud (Achmad & Pamungkas, 2019).

This research contributes to the importance of external pressure that will reduce the company's actions to commit fraud against financial reporting. The role of external factors can be strengthened to identify financial fraud and the importance of CEO competence as a factor influencing fraudulent activity. Fraudulent financial reporting can be suppressed by replacing the CEO. This study extends previous literature by providing new evidence that external pressure and board turnover can be used to detect financial statement fraud.

Theoretically, this study reinforces the key components in understanding fraud risk in Crown's Fraud Pentagon Theory framework including external pressure and capability which is presented by changing the CEO can mitigate fraudulent practices in financial reporting. The practical implication of this study, for shareholders, it is necessary to replace the CEO on a regular basis to eliminate the influence of fraud committed by the old management. Regulators (OJK) need to develop stronger regulatory frameworks to prevent and detect fraud. For creditors and auditors, it provides an indication that external pressure on management can reduce fraudulent financial reporting.

There are limitations to this study, such as the research period is relatively short, covering only 3 years and limited to 213 data. Recommendation for future research, can use the fraud hexagon model and also add moderating variables such as components of corporate governance to increase the accuracy of research finding

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