Fraudulent Financial Reporting

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Fraudulent Financial Reporting: An Application of Fraud Pentagon Theory to Association of Southeast Asian Nations Corporate Governance Scorecard

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Abstract:

This study aims to detect and examine fraudulent financial reporting by applying fraud pentagon theory to all companies implementing the Association of Southeast Asian Nations (ASEAN) Corporate Governance Scorecard in Indonesia. This study has the following objectives: to examine and analyze the effect of financial stability, external pressure, financial target, nature of industry, audit opinion, change of directors, managerial ownership against fraudulent financial reporting.

In this research, we use correlation research type. The population of this sample is all sectors of companies listed on the Indonesia Stock Exchange. Using sampling technique in the form of Purposive Sampling Technique applying ASEAN Corporate Governance Scorecard in Indonesia with research period of 2012 to 2016, which produce 30 samples, multiple linear regression analysis using SPSS version 22.

The results of this study found that financial stability, managerial ownership has a negative and insignificant effect on fraudulent financial reporting. External pressure, nature of industry has a negative and significant effect on fraudulent financial reporting. Financial Target, Audit Opinion, Change of Directors has a positive and insignificant effect on Fraudulent Financial Reporting.

Keywords: fraudulent financial reporting; fraud pentagon theory; corporate governance.

JEL Classification: K13; K20; K42; M41.

Introduction

The financial statements are a binocular for users of financial information to see how a company's financial condition (Tessa 2016). The financial statements within the company have a very important role for stakeholders in providing information about the company's financial condition. Financial statement information is used by users that are for decision making for the future (Ulfah *et al.* 2017). According to the Association of Certified Fraud Examiners (ACFE), fraud is an act of fraud or fraud committed by a person or body that knows that such mistakes may result in some unfavorable benefits to the individual or other parties (Putri 2017). Fraud will result in a company losing its trust by the users of financial statements that get information that is not appropriate. Especially for investors who will feel have been wrong in making investment decisions. Not only investors or users of financial statements are harmed but will also hurt for the accountant who will go tarnished his name for the actions of one accountant. And the auditor in charge will also be questioned the accuracy of the audit results.

The problem of fraudulent financial reporting is a problem that cannot be underestimated, because from year to year cases of fraud committed continues to grow. Many basic reasons are very numerous and contribute to a person's intentions of cheating. But even so, the actual fraudulent financial reporting can be overcome by way of detection. From time to time the detection of financial statements developed and has several ways that can be done by the company. The theory of pentagon fraud is called Crowe's fraud Pentagone Theory; there are several theories of fraud detection in financial reporting such as fraud triangle and fraud diamond (Annisya *et al.* 2016). This theory adds two less elements in it namely capability and arrogance of the triangle theory proposed by Cressey. The elements of Crowe's Fraud Pentagone Theory are pressure, opportunity, rationalization, capability and arrogance.

According to SAS No. 99 There are four types of pressure elements that may result in fraudulent financial reporting. The types of pressure are financial stability, external pressure, personal financial needs and financial targets. These types of opportunities include the nature of industry, ineffective monitoring and organizational structure. Rationalization at the company can be measured by auditor turnover cycle, the audit opinion obtained by the company and the total state of accrual divided by total assets. In the research conducted by Yusof (2015), arrogance can be proxies with the frequency of appearance of the CEO's image in the annual report, the CEO politician and the President and the duality of the CEO. As for capability can be proxies with doubtful debt policy that is not announced, change of directors and limited access SPV's financial statements.

In many cases the fraud that publicity reveals is often a company that can be said of a large company that can compete with companies that exist abroad. Our country belongs to the ASEAN countries, which in the ASEAN level has an assessment of the practice of Corporate Governance of public listed companies listed on the Indonesia Stock Exchange (IDX) and the assessment is known as Corporate Governance Scorecard. Therefore, the researcher is interested to further investigate the fraud of financial report using pentagon fraud analysis on companies implementing ASEAN Corporate Governance Scorecard in Indonesia because the research is rarely done. This research is updating research conducted by Annisya *et al*. (2016) with the difference of research that is use of Fraud Pentagon theory, where previous research use Fraud Diamond theory. This study has the following objectives: To examine and analyze the effect of financial stability, external pressure, financial target, nature of industry, audit opinion, change of directors, managerial ownership against fraudulent financial reporting.

1. Literature Review

1.1.Fraudulent Financial Reporting

According to the Association of Certified Fraud Examiners (ACFE) fraudulent financial statements are a deliberate error of a company's financial statements made through the misstatement of misconduct or omission of the amount or disclosure in the financial statements to deceive the users of financial statements (Tessa 2016). According to SAS NO.99 (2002: 1722) states that cheating of financial reports may be related to the following matters: (a). Manipulation, forgery, and alteration of accounting data or supporting documents from the provision of financial statements; (b). Intentional recording errors of events, transactions, or other significant information on financial statements;(c). Intentional mistakes on the use of accounting principles of quantity, classification, mode of delivery, or disclosure.

1.2. Pentagon Fraud Theory

The latest theory is the Fraud Pentagon theory, where this theory was proposed by Crowe Howarth in 2010. The explanation of the elements contained in the pentagon fraud theory. According to Aprilia (2017) is as follows: Arrogance: it is the nature of a lack of conscience that is an attitude of superiority or a prideful attitude to someone who believes that internal control cannot be applied personally. According to Aprilia (2017), this arrogance arises from the belief that he is capable of committing fraud and existing controls cannot happen to him so that fraudsters usually think hard to cheat without fear of sanctions that will ensnare him.

Competence/ capability: what is meant here by competence in terms of someone to conduct fraud. Thus it can be concluded that competence is an employee's ability to penetrate internal controls in his company, develop sophisticated embezzlement strategies, and be able to control the social situation that can bring benefits to him by influencing others to work with him (Aprilia 2017). Opportunities: Weak controls provide an opportunity for someone to commit fraud. Sukirman and Sari (2013) explains the opening of opportunities because the perpetrator believes that their activities will not be detected. If the action is known, there will be no serious action to respond to it. Opportunities are usually linked to the environment in which they occur, due to weak internal controls, inadequate management controls and unclear procedures (Aprilia 2017). Pressure: the motivation to commit and hide the fraud committed. Tuanakota (2012) explain that someone is embezzling the company money because of the pressure that it feels, the financial pressure needs to be resolved and this cannot be shared with others. The issue will be covered by the person concerned and becomes a non-shareable problem for others. Rationalization is a justification for the action to be taken (Aprilia 2017). Fraud actors will usually look for reasons to identify their actions. Tuanakota (2012), rationalization is done to justify his unlawful behavior in order to maintain his identity as a trusted person.

1.3. Development of Hypothesis

1.3.1 Financial Stability on Fraudulent Financial Reporting

In research conducted Mafiana (2016) defines economic stability as a stable financial condition within a company. So it can be concluded that if economic conditions are said to be unstable, then financial stability will also be unstable. Pressures can come from lifestyles, economic demands, and others including financial and non-financial (Putri 2017). In terms of finances can be seen from the financial stability, in this study is more focused on the financial aspect. Financial stability of firms is usually seen from the growth rate of corporate assets (ACHANGE). Assets are a reflection of the company's wealth that can show the outlook of a company (Rahmawati 2013). Corporate image can be described from the amount of wealth owned by a company. That will make the company more value in the eyes of investors that has been owned.

According to Statement of Auditing Standards (SAS) no. 99, when financial stability is threatened by the state of the economy, the industry and the situation of the operating entity managers are facing pressure to conduct a fraudulent financial reporting (Hanifa 2015). In a certain time the company's financial condition will falter and fluctuate, even to the loss of some investors. The situation is very feared by the management of the company and with various considerations of a fraud will be done. The lower the growth rate of a company's assets, the lower the financial stability of the company. Which then will cause a negative perception on companies that are considered unable to operate properly. This is reinforced by Willingham's (1991) statement indicating that in cases where firms experience below average industry growth, management may be able to manipulate financial statements to improve the outlook for firms Skousen *et al.* (2009); Mafiana *et al.* (2016); Aprilia (2017); and Putri (2017) have proven that there is a relationship between the growth rate of corporate assets and the likelihood of fraudulent financial reporting.

H1: Financial Stability has affects Fraudulent Financial Reporting.

1.3.2. External Pressure on Fraudulent Financial Reporting

External pressure is the pressure that comes from outside the company. This pressure usually comes from a third party and is related to debt or loans. Just as the statement by Mafiana (2016) defines external pressure as excessive pressure for management to meet the requirements or expectations of third parties. Pressure is what then makes management to cheat financial statements, can be seen or detected by proxy external pressure with leverage ratio is the ratio between total debt that is, total assets owned by the company.

In order for the company to get ease in conducting debt transactions with third parties, the company must be able to convince a third party one of them by raising the value of a high leverage ratio. Because, if the high leverage ratio value means a company has more debt than the assets owned and credit risk is also high. When a company is in need of debt from a third party, the company will justify all sorts of ways to get the loan or the debt. This is supported by the opinion of Skousen *et al.* (2009) that one of the most frequent pressures of corporate management is the need to secure additional debt or external financing sources in order to remain competitive, including research and development funding or capital expenditures (Mafiana *et al.* 2016). Whereas in the research of Luo and Wang (2009) states that when companies experience external pressures the company, can be identified the risk of greater material mismanagement due to fraud (Mafiana *et al.* 2016).

H2: External Pressure has effect on Fraudulent Financial Reporting.

1.3.3 Financial Target on Fraudulent Financial Reporting

The company's financial target is the responsibility of management to manage the resources owned by the company to achieve it. According to Skousen *et al.* (2008) return on assets is a measure of operational performance widely used to show how efficiently assets have been used. By using the value of ROA obtained by the company, it will show how much profit derived from the asset. The higher the company's ability to achieve financial targets, the better the performance in the company. In the reality experienced by many companies, sometimes there are some causes of financial targets cannot be achieved by the company and result in the assessment of the company will decline. Therefore, fraudulent practices occur in companies that are not able to sustain target achievement or even in companies that are not able to meet the target and decrease the selling rate while the assets used are maximal.

H3: Financial Target has effect on Fraudulent Financial Reporting.

1.3.4 Nature of Industry on Fraudulent Financial Reporting

Opportunities are a condition that allows a person to act or occupy a place in a certain position (Zulvi and Hanafi 2017). Under such conditions a cheating can be done easily if it has a proper position and the situation or situation of the company is considered qualified to run a fraud. One of these conditions is nature of industry, according to Putri (2017) nature of industry is the nature of the industry associated with the emergence of risks for companies engaged in industries that involve significantly greater estimation and consideration. The nature of the industry or the operations of the entity provides an opportunity to engage in fraudulent financial reporting, which may arise from a variety of matters.

H4: Nature of Industry has affects Fraudulent Financial Reporting.

1.3.5. Audit Opinion to Fraudulent Financial Reporting

A fraud committed a company can be known with the results obtained audit, the better the audit results of the company the lower the level of fraud that exist within a company. Audit opinion is often used to assess the effectiveness of a company's performance and to assess whether the financial statements that have been presented by management have been accountable and transparent (Aprilia 2017). Auditors may provide some opinions on the companies audited according to the conditions of the company (Mafiana *et al.* 2016). With an audit opinion, management thinks such actions are common and rational. Because the auditor gives an opinion only to be tolerated for errors of the company by raising an audit opinion with the language of explanation. In a study conducted by Sukirman and Sari (2013) examined the effect of rationalization on fraudulent financial reporting with the proxy of audit opinion. From the research it can be seen that by using the proxy of audit opinion, rationalization can affect the fraudulent financial reporting.

H5: Audit Opinion has affects Fraudulent Financial Reporting.

1.3.6. Change of Directors to Fraudulent Financial Reporting

The change of directors is the transfer of authority from the old directors to the new directors in order to improve the performance of previous management (Mafiana*et al.* 2016). With a change or change of directors this can appear stress period that will provide opportunities for a cheating in the company. This will affect the company's performance results are not maximal. Do not stop there, internal parties are also required to quickly adapt to the new director for corporate performance recovery. In a study conducted by Putri (2017) confirmed that the change of directors might affect the fraudulent financial reporting.

H6: The change of Board of Directors has affects Fraudulent Financial Reporting.

1.3.7. Ownership by Management on Fraudulent Financial Reporting

Arrogance is an arrogant attitude that someone does. It usually happens because he feels that a company is his own, assuming that someone is a principal and an agent. This managerial ownership can make a person arrogant and arbitrary, because all his actions as an agent can affect the results obtained principal later where in this case the dividends. Given that some of the shares owned by the company's management will affect management policies made in discussing the company's financial performance (Putri 2017).

According to Tiffani and Marfuah (2015), the ownership of shares by insiders causes the claim to have the right to claim on the income and assets of the company so that will affect the company's financial condition. Given the two conditions experienced by this person, it will cause turmoil to feel what has owned the company and make someone forget that there are others who have the right to the company. Fraud in this case the main trigger is the personal interest of management that is out of control. This is supported by research conducted by Hapsari (2014), which states that arrogance with managerial ownership proxy affects fraud.

H7: Managerial Ownership has affected Fraudulent Financial Reporting.

2. Methodology

In this study, research using correlation research type. The research is to test the influence of independent variables, namely is financial stability, external pressure, financial target, nature of industry, audit opinion, change of directors and managerial ownership to the dependent variable of fraudulent financial reporting. With this type of research, the authors use companies that implement ASEAN Corporate Governance Scorecard in Indonesia. The research period 2012-2016 as the object of research. Multiple linear regression analysis using SPSS version 22.

2.1. Operationalization of Variables

2.1.1 Dependent variable

Dependent variable used in this research is fraudulent financial reporting. As applied earlier fraudulent financial reporting is measured by using the F-Score Model (Annisya *et al.* 2016) as follows:

$$\text{F-score} = \text{Accrual Quality} + \text{Financial Performance} \quad (1)$$

The variable components of the F-score include two things that can be seen in the financial report: accrual quality and financial (Mafiana*et al.* 2016). According to Putri (2017), Accrual quality is proxy with RSST accrual while financial performance is proxy with changes to accounts receivable, changes to inventory accounts, changes to cash sales account, changes to EBIT.

$$\text{RSST Accrual} = \frac{(\Delta WC + \Delta NCO + \Delta FIN)}{\text{Average Total Assets}} \quad (2)$$

$$\text{WC (working capital)} = \text{Current Assets} - \text{Current Liability} \quad (3)$$

$$\text{NCO (Non Current Operating Accrual)} = (\text{Total Assets} - \text{Current Assets} - \text{Investment and Advance}) - (\text{Total Liabilities} - \text{Current Liabilities} - \text{Long Term Debt} \quad (4)$$

$$\text{FIN (Financial Accrual)} = \text{Total Investment} - \text{Total Liabilities} \quad (5)$$

$$\text{ATS(Average Total Asset} = \frac{(\text{Beginning Total Assets} + \text{End Total Assets}}{2} \quad (6)$$

$$\text{Financial Performance} = \text{change in receivable} + \text{change in inventories} + \text{change in cash sales} + \text{change in earnings} \quad (7)$$

$$\text{Change in receivables} = \frac{\Delta \text{Receivables}}{\text{Average Total Assets}} \quad (8)$$

$$\text{Change in inventories} = \frac{\Delta \text{Inventories}}{\text{Average Total Asset}} \quad (9)$$

$$\text{Change in cash sales} = \frac{\Delta \text{Sales}}{\text{Sales}_t} - \frac{\Delta \text{Receivables}}{\text{Receivables}_t} \quad (10)$$

$$\text{Change in earning} = \frac{\text{Earning}_t}{\text{Average Total Assets}_t} - \frac{\text{Earnings}_{t-1}}{\text{Average Total Asset}_{t-1}} \quad (11)$$

2.1.2. Variable Independence

In this study exogenous variables consist of four latent variables namely pressure, opportunity, rationalization, capability and arrogance. Each variable is formulated as follows:

(a) Financial Stability. Pressure variables are proxies with Financial Stability. (Mafiana*et al.*2016);

$$\text{ACHANGE} = \frac{(\text{Total Aset}_t - \text{Total Aset}_{t-1}}{\text{Total Aset}_{t-1}} \quad (12)$$

(b) External Pressure External Pressure is an excessive pressure for management to meet the requirements or expectations of third parties (Mafiana*et al.*2016). External pressure in this study is proxies with laverage ratio (LEV);

$$\text{Debt to Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}} \quad (13)$$

(c) Financial Target. Return on Assets serve as a proxy for financial targets variables in this study. Return on Assets (ROA) by Skousen*et al.* (2008) is part of profitability ratios in financial statement analysis or company performance measurement;

$$ROA = \frac{\text{Earning After Interest and Tax}}{\text{Total Aset}} \quad (14)$$

(d) Nature of Industry. In this study, researchers choose receivables as a proxy of nature of industry such as research that has been done by Putri (2017);

$$Receivable = \frac{Receivable_t}{Sales_t} - \frac{Receivable_{t-1}}{Sales_{t-1}} \quad (15)$$

(e) Audit Opinion. Audit opinion can serve as a benchmark of any possible indications of fraud (Aprilia, 2017). An audit opinion arises with an unqualified opinion with an explanatory language during the period 2012-2016 will be coded 1 and for audit opinions obtained other than that opinion during the period 2012-2016 then coded 0;

(f) Substitution of the Board of Directors. According to Wolfe and Hermanson (2004), a change of board of directors will lead to a stress period affecting the opening of opportunities for fraud (Mafiana *et al.* 2016). Change of Directors (CoD) is measured by coding 1 for a change directors during the study period 2014-2016 and code 0 for no change of directors during the study period 2014-2016;

(g) Ownership by Management. In this research can be measured by giving code that is code 1 for the existence of share ownership by management side in period 2012-2016 and code 0 for no share ownership by management side of directors during period 2012-2016.

2.2 Population, Samples and Sampling Techniques

The population of this sample by using Purposive Sampling Technique

Table 1. Selection of Research Sample

No	Sample kreteria	Total
1	Companies listed on the Indonesia Stock Exchange during the period 2012-2016	555
2	Companies that implement the ASEAN Corporate Governance Scorecard during 2012-2016	250
3	The company has complete data on the variables used	30
Sample		30

Source: Secondary data process 2018.

Based on Table 2 sample selection is obtained a sample of 30 banking companies. Of the 555 companies listed on the IDX, implementing the ASEAN Corporate Governance Scorecard in Indonesia in 2015, 50 companies were awarded. Of the 50 companies that disclose information about the variables of Financial Stability, External Pressure, Financial Target, Nature of Industry, Audit Opinion, Substitution of Directors and Ownership by Management only 30 companies. Then obtained 30 sample companies.

Table 2. Hypotheses Test

Model	Unstandardized Coefficient			Standardized Coefficients	T	Sig.
	B	Std.Error				
1	Constant)	.985	.353	-.047	2.794	.008
	ACHANGE	-.225	.639	-.296	-.352	.726
	LEV	-1.223	.599	.075	-2.043	.047
	ROA	.479	.943	-.488	.508	.614
	Receivable	-2.153	.528	,005	-4.076	.000

Model	Unstandardized Coefficient			Standardized Coefficients	T	Sig.
	B	Std.Error				
	OPNADT	.007	.172		.041	.968
	CoD	.008	.181	,005	.044	.965
	OM	-.287	.228	-.161	-1.261	.214

Source: results of SPSS version 22

Based on the calculation of multiple linear regression analysis using SPSS, the equation is as follows:

F-Score = 0.985 – 0.225 ACHANGE – 1.223 LEV + 0.479 ROA – 2.153 Receivable + 0.007 OPNADT + 0.008 CoD – 0.287 OM

2.3. Discussions

2.3.1. Financial Stability on Fraudulent Financial Reporting

Based on the results of hypothesis testing shows that the financial stability has a negative and not significant influence on fraudulent financial reporting. This can be seen from the significance level of 0.726> 0.05 and has a negative direction indicated by the value of B = -0.225. Company assets can be used to view the company's financial condition, since assets can represent the assets owned by the company (Annisya, 2016). Unstable conditions in the company can be caused by the performance of management that is unable to maximize the assets it has, resulting in changes in assets owned by a company. Financial stability is not significant because management will not do a manipulation of financial statements without a careful consideration. Although for reasons of interest to the company though because this will result in financial conditions in the future. A company will definitely maintain and maintain the principles of GCG comprehensively. Manipulation of financial statements should not be done to maintain the value of a company the risk management run by a company has effective and efficient sifts and human resources development. The results of this study in accordance with research conducted Ulfah (2017) stating that financial stability has no significant effect on fraudulent financial reporting.

2.3.2. External Pressure on Fraudulent Financial Reporting

Based on the results of hypothesis testing shows that external pressure has a negative and significant effect on fraudulent financial reporting. this can be seen from the level of significance of 0.047 <0.05 and has a negative direction that can be seen from the value of B = -1.22. According to Annisya (2017), external pressure in the form of high credit risk as a result of high loan or corporate debt to the creditor, can lead to company management financial manipulation, to convince the creditor. The results of this study show that leverage affects fraudulent financial reporting. This is because a management will think hard to get additional capital or even to develop the company's business. With these external pressures, it is precisely the management to present standardized financial statements without a manipulation, in order to make the third party truly believe and management has no fear of exaggeration when the report is submitted. Therefore, external pressure has a negative and significant effect on fraudulent financial reporting. The results of this study in accordance with research conducted Tifani (2015); Tessa (2016) stating that External Pressure significant effect on fraudulent financial reporting.

2.3.3. Financial Target on Fraudulent Financial Reporting

Based on the hypothesis testing shows that the financial target has positive and insignificant effect on fraudulent financial reporting. This can be seen from the level of significance obtained is 0.614> 0.005 with a positive direction that can be seen from the value of B = 0.479. Management strives to meet the company's goals with some thoughtful solutions and has been discussed with several experts in their field at the company. With a good ROA, a company can be said well because management is considered capable of fulfilling all responsibilities, especially the utilization and management of assets owned by the company. But for the achievement of financial targets should not the company fraudulent financial reporting, because if a fraud has been done one time period it will affect the period that will come too. So, the company will be the loss. Financial target has a positive and insignificant effect because, if a company has a financial target that must be achieved then the company will maximize the management of corporate wealth and use it to develop in all fields. Management of actions will be higher in the management of wealth for the achievement of goals. So the wealth or resources owned company is not in vain possessed. The results of this study are in accordance with research conducted by Annisya (2017) stating that financial target has no significant effect on fraudulent financial reporting.

2.3.4. Nature of Industry on Fraudulent Financial Reporting

Based on the hypothesis testing showed that nature of industry has a negative and significant influence on financial fraud. This can be seen from the level of significance of 0.000 <0.05 and the negative direction can be seen from the value of B = -2153. Nature of Industry is the ideal state of an enterprise in the industry (Tessa 2016). The condition of accounts receivable is a form of nature of industry that can be responded by different reactions from each company manager. A good company will try to eliminate the amount of receivables and increase the company's cash receipts. Receivables require an assessment of the to know how well the company management works. The lower the value of the receivables, the better the valuation of the company. The company's assessment is what the company maintains to convince stakeholders that management is able to work well. For a company that is maintaining the value of receivables to third parties or others, it will be forced to take measures to minimize the value of receivables in the company. This is corroborated by the results of the proxy testing of nature of the industry, which states that the nature of the industry has a negative and significant effect on fraudulent financial reporting. The results of research conducted by Tessa (2016), which states that the Nature of Industry is significant effect on fraudulent financial reporting.

2.3.5. Audit Opinion on Fraudulent Financial Reporting

Based on the results of hypothesis testing that shows that audit opinion positive and not significant effect on fraudulent financial reporting. This can be seen from the level of significance of 0.968> 0.05 and the positive direction seen from the value of B = 0.007. Unqualified opinion with explanatory language is one of the forms of tolerance made by the auditor on findings during the audit process over the earnings management. With that opinion, it is possible for management to take into account the mistakes it makes is normal and does not include a mistake. However, the opinion does not affect the materiality of the financial reporting, so it cannot affect the rationalists of a person to commit fraudulent financial reporting. Where an explanation is sometimes not a mistake, but in the form of additional information from the Indonesian Institute of Accountants, other reports of independence and certain other circumstances. The results of this study in accordance with research conducted by Annisya (2016) stating that audit opinion has no significant effect on fraudulent financial reporting.

2.3.6. Change of Directors on Fraudulent Financial Reporting

Based on the results of tests conducted indicate that the change of directors has a positive and insignificant effect on fraudulent financial statement. Can be seen from the level of significance of 0.965> 0.05 and the positive direction can be seen from the value of B = 0.008.Capability is a person's attempt to commit an act of fraud for personal purposes. According to Wolfe and Hermanson (2004) related capability elements in the act of fraud are capability such as position/function, brains, confidence/ego, coercion skills, effective lying and immunity to stress (Annisya 2016). But in reality, a board of directors supervised by the commissioner and the change of directors is happening precisely because of replacing the less good directors with a more competent directors in order to affect both the performance of corporate management. The higher the ability of the directors the level of prudence in work will also be higher so that the possibility of a fraud is very little. This study is in accordance with research conducted by Tessa and Annisya (2016) stating that the change of directors has no significant effect on fraudulent financial reporting.

2.3.7. Managerial Ownership on Fraudulent Financial Reporting

Based on the result of hypothesis testing showed managerial ownership have negative and not significant effect to fraudulent financial reporting. This can be seen from the significant level of 0.214> 0.05 and the value of B = -0.287.Management is viewed from the presence or absence of ownership of shares by the management company. The existence of some shares owned by management assessed will affect company performance. Management is considered to be arbitrarily concerned with his ego as a shareholder and management. But this ego will have an impact with the improvement of management spirit in work and maximize the performance of its management. So with the existence of this managerial ownership will actually make someone ambitious to develop and promote the company that will make someone to think twice to commit an act of fraud. Because if the management to cheat, then the impact on the decline in real management performance and will harm the company. Therefore, management performance has an insignificant influence on fraudulent financial reporting. The results of this study in accordance with the results of research conducted by Putri (2017) stating that the managerial ownership have no significant effect on fraudulent financial reporting.

Conclusions

Based on the above results, the evidence suggests that factors can lead to fraudulent financial reporting of companies listed on the Indonesia Stock Exchange applying ASEAN Corporate Governance Scorecard in Indonesia with research period of 2012 to 2016.The results of this study found that financial stability, managerial ownership has a negative and insignificant effect on fraudulent financial reporting. External pressure, nature of industry has a negative and significant effect on fraudulent financial reporting. Financial target, audit opinion, change of directors has a positive and insignificant effect on fraudulent financial reporting.

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