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Corporate Governance Mechanisms in Preventing Accounting Fraud: A Study of Fraud Pentagon Model

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Abstract:

This research is aimed to identify whether financial targets, ineffective monitoring, change in auditor, change in direction and arrogance on accounting fraud and analyse the moderating effect of corporate governance mechanism on fraud pentagon model. This research compile data of 12 companies of fraud and non-fraud 32 companies listed on the Indonesian Stock Exchange during 2012-2016. The researcher uses logistic regression, the results of this study shows that risk factors in perspective fraud pentagon that significantly affect the accounting fraud are only a change in direction. As a moderating variable, corporate governance mechanisms ownership is only institutions which able to weaken the relationship of change in direction in the accounting fraud.

Keywords: corporate governance mechanism; accounting fraud; fraud pentagon

JEL Classification: G32; G34; M41

Introduction

The financial statements become one of the forms of corporate communication tools regarding financial data or operational activities of the company to the users of financial information. Users of financial information include: the management, employees, investors, creditors, suppliers, customers, and government. Companies can show their performance improvements over a period of time through financial reporting, but in fact there are many deviations such as number manipulation, disclosure, mark-up, and eliminating data in the presentation of financial statements. Performance results contained in the financial statements more aims to get the impression of "good" from various parties. Encouragement or motivation to always look good by various parties often force companies to manipulate in certain parts, so that ultimately presents information that is not appropriate and will harm many parties. Fraud by companies such as manipulating financial statements is often called accounting fraud. The behaviour of irregularities in the presentation of financial statements is an example of accounting fraud.

According to the Indonesian Institute of Accountants (IAI 2011), the accounting fraud as: (1) Misstatements arising from fraud in financial reporting are misstatements or deliberate omission of amounts or disclosures in financial statements to trick users of financial statements, (2) misstatements arising from undue treatment of an asset (often referred to as misappropriation or embezzlement) relating to the theft of an entity's

assets resulting in a financial statement not presented in accordance with generally accepted accounting principles in Indonesia. Not stopping in ENRON's case, the recent accounting fraud case was also able to attack a technology company that has stood for 140 years, Toshiba Corporation. This case began to unfold since July 2015, Toshiba proven to do the inflation of 151.8 billion ¥ profit or equivalent to 1.22 billion USD in five years. This is quite unfortunate by many parties, good corporate governance, reputable corporate reputation is not enough to make a company classmate Toshiba really clean of the fraud. The case of fraud experienced by Toshiba impact on the resignation of Toshiba CEO, Hisao Tanaka and followed by two other senior executives.

In addition to the fraud diamond theory that continues from the fraud triangle theory, Crowe (2011) also helped refine the theory that triggered by Cressey. Crowe found a study that the element of arrogance also contributed to the occurrence of fraud. Crowe's research also includes fraud triangle theory and competence elements in it, so that the fraud model found by Crowe consists of five elements of indicators namely pressure, opportunity, rationalization, competence, and arrogance. The theory presented by Crowe in 2011 is named with Crowe's fraud pentagon theory.

This study is a study that applies Crowe's fraud pentagon theory. This is done because the theory is a renewable theory that had not previously been applied to researching fraudulent financial reporting, especially in Indonesia, and the fraud indicator described in Crowe's fraud pentagon theory is much more complete than previous similar theories such as the theory of fraud triangle and fraud diamond. The elements in Crowe's fraud pentagon theory cannot simply be researched and thus require variable proxies. Proxies that can be used for this research include pressure proxied with, financial targets, financial stability, external pressure, and institutional ownership. These are the opportunity proxied by ineffective monitoring and the quality of external auditors; Rationalization proxied by change in auditor; Capability proxied by the change of company directors; and arrogance which is proxied with frequent number of CEO's picture. These five factors are indicated to be the trigger for the increase of fraud, especially in recent years. The desire of the company so that the operational activities of the company is guaranteed going concerned always look good cause companies sometimes take a shortcut (illegal) that is by doing fraud.

This study was conducted because of the background of concern over the rise of cases of financial reporting fraudulent in Indonesia, especially in the financial sector and banking tend to be quite difficult to disclose. Until now, little research has been done to peel the case, especially by using Crowe's fraud pentagon theory. Based on this background, the study was conducted to conduct a more in-depth examination of Crowe's fraud pentagon theory proposed by Crowe (2011), to investigate and provide further explanation whether Crowe's fraud pentagon theory can help to detect a tendency for accounting fraud especially in the financial sector and banking and government sectors in Indonesia.

Based on the results of previous studies indicate the inconsistency of research results related to the perspective of pentagon fraud. First, Financial targets were conducted by Lou and Wang (2009), Anshar (2012), Martantya (2013) and Firmanaya (2014) where the results of his research showed significant influence on accounting fraud. However, research results from Puspitrisnanty and Fitriyani (2014), Skousen *et al.* (2008); (2009) and Sukirman and Sari (2013) showed that ROA has no effect on accounting fraud. Second, ineffective monitoring is done by Skousen *et al.* (2008), Antonia (2008) and Sun and Liu (2013) have significant effect on accounting fraud. Nevertheless, Martantya's (2013), Skousen *et al.* (2009), and Ratmono *et al.* (2013) results show that ineffective monitoring has no effect on accounting fraud. Furthermore, the related rationalization factor is done by Chen and Elder (2007) and Sukirman and Sari (2013) whose research results show significant influence on accounting fraud. However, it is not in line with Firmanaya (2014) and Ratmono *et al.* (2013) where rationalization has no effect on accounting fraud.

Wolfe and Hermanson (2004) clearly explain that the Change in Direction is capable of causing a stress period which opens up opportunities for fraud. Dechow *et al.* (1996) in relation to fraudulent financial reporting investigates the issue of corporate governance structures and the degree of concentration of ownership by insiders. The results showed that when the concentration of ownership owned by the fraud company will be easy to occur. Fraudulent financial reporting also relates to issues of corporate governance structure. Dechow *et al.* (1996) states clearly that the highest level of fraud occurs in companies with no good corporate governance or weak governance system.

Arrogance is a behaviour of superiority and greed within someone who believes that internal control is not applied to him (Horwath 2011). Arrogance is usually more directed to a person who has a higher position in a company. A study by Tessa and Harto (2016) suggests that a CEO tends to be more willing to show everyone the status and position he has in the company because they do not want to lose that status or position. In research by Tessa and Harto (2016) it is also obtained the results of research on the influence of arrogance against the

detection of fraudulent financial statement. Where is argued that arrogance variables with proxy number of CEO photos contained in a financial report significantly affect the detection of fraudulent financial statement.

In this study intends to examine and analyze the role of corporate governance mechanisms in preventing accounting fraud in the perspective of pentagon fraud by Crowe (2011). Corporate governance mechanisms can be used by companies to align ownership and management interests. Corporate governance mechanisms are needed in monitoring, controlling and managing where a means is used to weaken accounting fraud. Corporate governance mechanisms focused on the owners of these companies will certainly prevent accounting fraud. Thus, a strong corporate governance mechanism will weaken the risk factors for accounting fraud. Research on accounting fraud has been done but the results are still not established yet. There are different research results so that it becomes interesting and encourage the testing done in the next research. This study was motivated based on previous studies and the results of previous studies still have inconsistent results.

Based on the phenomenon and research gap, where the inconsistency of research result motivates the researchers and it is interesting to do further research. This study considers the mechanism of corporate governance as a moderating variable to bridge the research gap. The research question is whether corporate governance mechanisms can prevent accounting fraud in the perspective of pentagon fraud. To analyse the fraud indicator in Crowe's fraud pentagon theory which consists of the effect of financial targets, ineffective monitoring, change in auditor, change in direction, arrogance on accounting fraud (2) To analyse the effect of corporate governance mechanism on financial targets, ineffective monitoring, change in auditors, change in direction and arrogance on accounting fraud.

1. Research Background

According to Jensen and Meckling (1976) explained that the occurrence of agency problems is the result of a contract between the principal and the agent. In practice, corporate managers who act as agents with responsibilities increase the profits of the owners, but managers also have an interest to maximize their welfare (Yantho and Pramuka 2007). The existence of different interests between principal and agent resulted in conflict of interest. With the conflict of interest is causing a variety of pressure for companies where the company must improve its performance in order to provide rationalization. The potential for fraud can easily occur when management has adequate capability, access and positioning (capability) and strong opportunity and opportunity) in fraudulent accounting.

The company uses agency theory to pursue corporate governance mechanisms. The rise of corporate fraud cases in reporting their financial statements has attracted the attention of many academics and economists to develop various theories which is capable to be used as a reference to detect fraud. One of them is the theory of fraud risk factors that is fraud pentagon. Thus, this research is done by placing corporate governance mechanism as moderating variable to fill and answer research gap on the relation of risk factor to accounting fraud.

Fraud Diamond

Wolfe and Hermanson (2004) add three conditions put forward by Cressey (1953) in the form of factors that influence a person to cheat, with element capability. Wolfe and Hermanson (2004) argue that: "Many frauds, especially some of the multibillion-dollar ones, would not have occurred without the right person with the right capabilities in place. Opportunity opens the doorway to fraud, and incentive and rationalization can draw the person toward it. But the person must have the capability to recognize the open doorway as an opportunity and to take advantage of it by walking through, not just once, but time and time again. Accordingly, the critical question is who can turn on the opportunity for fraud into reality? "

According to Wolfe and Hermanson, fraud is unlikely to occur without a person having the proper ability to carry out such fraud. The capability in question is the nature of individuals committing fraud, which encourages them to seek opportunities and make use of them. Opportunities for entry to fraud, pressure and rationalization can attract a person to fraud, but the person must have a good ability to recognize the opportunity to do the fraud tactics appropriately and get the maximum profit. But none of this will happen without someone who has the ability to recognize opportunities as opportunities and take advantage of them. In 2004 came a fraud theory introduced by Wolfe and Hermanson, a theory they found known as fraud diamond theory. The theory of diamond fraud is a refinement of the theory of fraud triangle. The diamond fraud theory adds capability / capability elements as a fourth element in addition to pressure, opportunity, and rationalization elements previously described in the fraud triangle theory.

Crowe's Fraud Pentagon Theory

Renewable theories that explore more deeply about the trigger factors of fraud are the pentagon fraud theory (Crowe's fraud pentagon theory). This theory was proposed by Crowe Howarth in 2011. The theory of pentagon fraud is an extension of the fraud triangle theory previously proposed by Cressey, in this theory adds two other elements of fraud: competence and arrogance competence. The competence described in the pentagon fraud theory has a similar meaning to the capability previously described in the fraud diamond theory by Wolfe and Hermanson in 2014. Competence is the ability of employees to ignore internal controls, develop concealment strategies, and controlling the social situation for his personal gain (Crowe 2011). According to Crowe, arrogance is an attitude of superiority over the rights owned and feels that internal control or company policy does not apply to him.

Hypothesis Development

Financial targets have a relationship with agency theory that explains the relationship between agents and principals. Agents and principals have an expectation to fulfill their respective interests. The connection in this case is in the desire of management to get a bonus on the results of their performance against the fulfillment of the principal desire is the fulfillment of financial targets in the form of profit. The higher the company's ability to achieve its financial goals can be said that the company's performance the better. But sometimes there are certain factor that cannot be controlled by the company to make the financial target is not achieved and the existence of the company will be in doubt. The emergence of pressures on achieving financial targets to earn bonuses on performance results and maintaining the existence of company performance can lead to the possibility of a pressure on the fulfillment of financial targets against fraudulent financial reporting.

Managers in achieving the various targets of the company are required to work optimally. The manager tries to improve his performance in order to achieve the company's targets, one of which is the financial target. Skousen *et al.* (2008) says ROA is a ratio that measures operational performance which can reflect the level of asset efficiency used. This is supported by Cashmere (2013, 202) which says that ROA is a result or a return on the resources utilized. Therefore, ROA is used as a proxy for financial targets. Furthermore, ROA can be used by companies in measuring ability to generate profit. The higher the ROA, the higher the profits the company will earn and the better the company's condition if its assets are used (Dendawijaya 2005). Research done by Huang *et al.* (2016), Yesiariani and Rahayu (2016), Lin *et al.* (2015), Firmanaya and Syafruddin (2014) and Suyanto (2009) revealed that ROA as a proxy of financial targets has a significant effect on fraud.

The higher the ROA the better the performance of management, which means the overall operation of the company, has been effective. However, in improving its performance by targeting higher ROA allows management to cheat in the form of accounting fraud. This is similar to the results of research Wisyastuti (2009) that when the company has a high profit level of fraud is also higher. So, the hypothesis in this study is:

H1: Financial Targets Positive Influence on Accounting Fraud

Ineffective monitoring is a condition in which the absence of effectiveness of internal control system owned by the company. This may occur because of management dominance by one person or small group, without compensation control, ineffective oversight of the board of directors and audit committee on internal financial reporting and control processes and the like (SAS No.99). With the lack of control from the internal company becomes an opportunity for some parties to manipulate the data in the financial statements.

Accounting fraud is one result of poor monitoring levels and inadequate monitoring systems. In these conditions trigger the occurrence of fraud because the opportunity to do things that harm and violate the rules of the company is very wide open (Andayani 2010). Companies if their level of supervision is low will have many gaps of all forms of crime including accounting fraud. SOP enforcement and proper monitoring of the system becomes a must if you want to avoid cheating. With the existence of a good oversight mechanism is expected to minimize the fraud. In addition, the audit committee should monitor periodically and intensively to management. If the audit committee function does not work, then it triggers an opportunity or opportunity where it will easily be used by some parties to make a profit by doing accounting fraud. The hypothesis in this study is:

H2: Ineffective Monitoring Positive Influence on Accounting Fraud

Rationalization is one of the risk factors of fraud triangle that leads to fraud. Substitution of auditors and KAP becomes the proxy of rationalization (Skousen *et al.* 2009). The change in auditor or the change of auditor used by the company may be considered as a form to eliminate the fraud trail discovered by the previous auditor.

This tendency encourages companies to replace their independent auditors to cover the fraud within the company. According to Stice (1991) that the change of auditors occurred due to several things including the risk of audit failure and subsequent litigation becomes greater than the following year. Change in auditor can indicate the occurrence of a fraud. The results of Loebbecke *et al.* (1989) found a fraud occurring during auditor tenure which is still in its first two years of service. This is similar to Albrecht (2002), which states that auditor turnover is related to accounting fraud. Substitution of auditors results in the stress period and transition period of a company. One indication of accounting fraud is the change of auditors in two years' period. The higher the auditor turnover, the higher the accounting fraud rate will occur. So the hypothesis in this study is:

H3: Change in Auditor Positive Influence on Accounting Fraud

Wolfe and Hermanson (2004) argue that a fraud is not possible if it is not done by someone with the right ability and position to carry out every detail of the cheating. Capability means the efforts of a person in committing acts of cheating for the achievement of certain goals. Sihombing and Rahardjo (2014) use change in direction as a proxy of capability to identify indications of accounting fraud. Change in Direction makes the initial performance is not optimal which caused the company during the transition period requires time to adjust (Sihombing and Rahardjo 2014). Change in Direction leads to conflict of interest because it is generally politically charged and there are interests of certain parties. Wolfe and Hermanson (2004) state clearly that the capability of the Change in Direction is motivated and triggers a fraud. Change in Direction can be considered as a strategy to remove the traces of previous directors which are considered to understand the various frauds that has been done by the company.

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 Indah (2017) confirmed that the change of directors can affect the accounting fraud. This is supported by research conducted by Rika Widya (2014).

A change of board of directors is chosen as a variable of one of the elements in Crowe's fraud pentagon theory, capability. There are six components in capability, including: positioning, intelligence, confidence / ego, coercion skills, effective lying/ deceit, and stress management. The change of board of directors is the transfer of authority from the old directors to the new directors with the aim of improving the previous management performance. Substitution of directors indicated able to describe ability in doing stress management. Wolfe and Hermanson (2004) argue that changes in directors are capable of causing a stress period that affects the more open opportunities for fraud.

The change of the board of directors can be a company's effort to improve the performance of the previous directors by changing the composition of directors or recruitment of new directors who are considered more competent than previous directors (Tessa and Harto 2016). On the other hand, a change of board of directors may be a company's attempt to get rid of directors who are deemed to know the fraud committed by the company and the change of board of directors is considered to require adaptation time so that initial performance is not maximal (Tessa and Harto 2016). Hypothesis in this research are:

H4: Change in Direction has a positive effect on Accounting Fraud

Arrogance is a behaviour of superiority and greed that exists in someone who believes that internal control is not applied to him (Horwath 2011). Arrogance is usually more directed to a person who has a high position in a company. A study by Tessa and Harto (2016) suggests that a CEO tends to be more willing to show everyone the status and position he has in the company because they do not want to lose that status or position. In research Tessa and Harto (2016) also obtained the results of research on the influence of arrogance against the detection of fraudulent financial statement. Where is argued that arrogance variables with proxy number of CEO photos contained in a financial report significantly affect the detection of fraudulent financial statement.

Arrogance can be measured by the frequent number of CEO's picture which is the number of CEO photos emblazoned on the company's annual report. The large number of CEO photographs emblazoned in an annual company report can represent the level of arrogance or superiority that the CEO has. A CEO tends to be more willing to show everyone the status and position he has in the company because they do not want to lose that status or position (or feel unacknowledged), this is in line with one of the elements expressed by Crowe (2011). A high level of arrogance can lead to fraud because with the arrogance and superiority of a CEO, the CEO feels that any internal control will not apply to him because of his status and position. According to Crowe (2011), there

is also the possibility that the CEO will do whatever it takes to maintain the position and position it currently holds. On the basis of such thinking it can be constructed a hypothesis:

H5: Arrogance has a positive effect on Accounting Fraud

The Board of Commissioners has full authority and responsibility in controlling, supervising and directing the management of the company's resources (Sykhoroza 2005). When the company has a board of commissioners that works effectively then its performance will also be good. The quality of this function is a determinant of the effectiveness of corporate governance. Differences of interests between the owners of the company and management can be aligned with corporate governance mechanisms. The quality of corporate governance mechanism is widely related to the quality of the company (Tangjitprom 2013). Monitoring by the board of commissioners and shareholders is a very important mechanism in aligning shareholder and management interests. The effectiveness of company monitoring conducted by an independent board of commissioners will minimize fraud despite high financial targets, ineffective monitoring, change in auditors, change in direction, and high arrogance. The Board of Commissioners has the responsibility to oversee management and ensure the implementation of the management of the company, the enforcement of SOP and the obligation of corporate accountability in accordance with the results of the corporate governance forum in 2003.

The results of the study (Skousen *et al.* 2009) prove that fraud occurs in companies with few external board members. Further research Beasley (1996) states the entry of the board of external commissioners improve the effectiveness of management control in order to prevent the occurrence of accounting fraud. The same thing was also expressed by Dechow *et al.* (1996) and Dunn (2004) in which many commissioner commissions are able to prevent fraud. Based on (KNKG 2004) the board of commissioners is responsible and competent in management monitoring. Board of commissioners is a predictable corporate governance mechanism affecting managerial opportunistic behaviour. So, the hypotheses of this study are:

H6a: Board of Commissioners as moderator Negative on Financial Target relationship to Accounting Fraud.

H6b: Board of Commissioners as moderator Negative on Ineffective Monitoring relationship against Accounting Fraud.

H6c: Board of Commissioners as moderator Negative on the Change in Auditor relationship to Accounting Fraud.

H6d: Board of Commissioners as moderator Negative on the Change in Direction relationship to Accounting Fraud.

H6e: Board of Commissioners as moderator Negative on the relationship of Arrogance to Accounting Fraud.

Corporate governance is a controlling company in order to organize and manage in which the objective is to increase the accountability and prosperity of the company Monks and Minow (2011). Control is to oversee the manager, so that managers can work in accordance with its function. The effectiveness of the board of commissioners will add strength to the CEO, where CEO strength is influenced by the level of independence of the board of commissioners. Independent Commissioner is a member of the board of commissioners which is not affiliated with the controlling shareholder, among members of the board of commissioners, management and other parties capable of affecting the level of independence and only works for the benefit of the company's welfare (KNKG 2004).

Independent commissioner is a strategic position in carrying out supervisory functions in order to implement good corporate governance. The results of Chtourou *et al.* (2001) provide conclusions when there is an independent board of commissioners that can influence accounting fraud caused in the supervision work independently. When an independent board of commissioners increases its oversight, then the accounting fraud rate will be lower. This is similarly delivered by Matolcsy *et al.* (1997) board dominated by internal directors tend to have weak corporate governance. Thus, accounting fraud can be minimized by discharging an independent commissioner because an independent commissioner is an independent party that represents a shareholder whose job is to specifically oversee all actions of the manager. Accounting cheating will be reduced because they are overseen by independent commissioners despite the financial targets, ineffective monitoring, change in auditors, change in direction, and high arrogance. Hypotheses in this research are:

H7a: Independent Commissioner as moderator Negative on Financial Target relationship to Accounting Fraud.

H7b: Independent Commissioner as moderator Negative on Ineffective Monitoring relationship to Accounting Fraud.

H7c: Independent Commissioner as moderator Negative on the Change in Auditor relationship to Accounting Fraud.

H7d: Independent Commissioner as moderator Negative on the Change in Direction relationship to Accounting Fraud.

H7e: Independent Commissioner as moderator Negative on relationship Arrogance to Accounting Fraud.

Institutional modelling becomes the proxy for corporate governance mechanism that is predicted to weaken the correlation of fraud diamond risk factors to accounting fraud. Beiner (2004) explains that to know the ownership of instirusi based on the percentage of voting rights owned by the institution. Institutional ownership has the ability to control management through effective monitoring so as to minimize fraud. This is because institutional investors are sophisticated investors that they are not easily fooled by the management of the company. Institutional investors in investment analysis activities spend a lot of time and institutions have spent a lot of money in gaining access to information so that they work in the process of control becomes optimal.

Cornertt *et al.* (2006) states that supervision conducted by institutional investors in a company could limit the behaviour of managers. *Furthermore*, Cornett *et al.* (2006) supervision by institutional investors is also able to encourage managers to give priority to company performance that can minimize opportunistic management behaviour. The existence of institutional ownership will reduce accounting fraud so that the financial statements can describe the real concept although the level of financial targets, ineffective monitoring, change in auditors, change in direction, high arrogance. Hypotheses in this research are:

H8a: Institutional Owners as moderator Negative on Financial Target relationship to Accounting Fraud.

H8b: Institutional Owners as moderator Negative on Ineffective Monitoring relationship against Accounting Fraud.

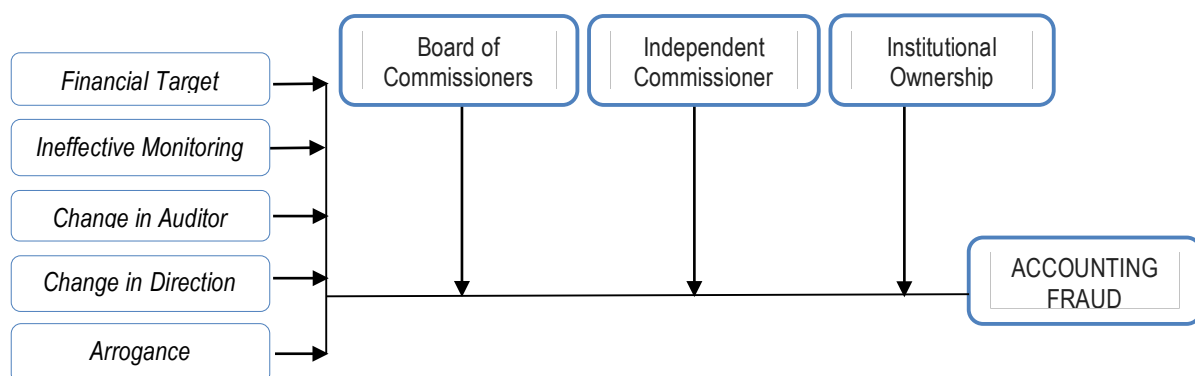
H8c: Institutional as Owners Moderator Negative on Change in Auditor relationship to Accounting Fraud.

H8d: Institutional Owners as moderator Negative on Change in Direction relationship to Accounting Fraud.

H8e: Institutional Owners as moderator Negative on the relationship of Arrogance to Accounting Fraud.

Theoretical framework for testing the effect of financial target, ineffective monitoring, change in auditor, change in direction, arrogance on accounting fraud and corporate governance mechanism as a moderating can be conveyed as shown below:

Figure 1. Theoretical Framework



Source: Secondary data are processed (2018)

2. Methodology

This research is a type of correlational research using quantitative approach because it leads to generalization, explaining the various phenomena and testing of the theory with variables in the form of numbers, data analysis and various evidences using statistical procedures. The population of this study is non-financial companies listing on the Indonesia Stock Exchange. Further selection of samples based on purposive sampling method where criteria as follows: 1). Non-financial companies listing on IDX in 2012-2016, 2). Companies subject to Bapepam-

LK sanctions in violation of Bapepam-LK regulation number VIII.G7 related to fraudulent financial statement presentation. 3). Companies that have complete data in 2012-2016.

The next step of the sample is obtained in pairs of companies that do accounting fraud and companies that do not commit accounting cheating in accordance with research Owen (2009). This study uses a sample of public companies listed on the Indonesia Stock Exchange (IDX) using the media of financial statements beginning from December 31, 2012 until December 31, 2016 (audited). The data analysis is using binary logistic method in analysing financial risk factors in identifying accounting fraud.

Operational Definition of Variables

All components of risk factors based on diamond Fraud cannot be observed directly. Furthermore, pressure is proxied with financial targets (ROA), opportunities proxied by ineffective monitoring (BDOU), rationalization proxied by change in auditor (Δ CPA), capabilities produced by Change in Direction (DCHANGE) and arrogance proxied with frequent number of CEO's picture in an annual report, as well as corporate governance mechanism proxied boards of commissioners, independent board of commissioners and institutional ownership.

Table 1. Operationalization Variable

Variable	Dimension	Indicator	Scale	Dimension
Accounting Fraud (Y) (Dependent Variable)	Annual Report and case reports of violation of article VIII.G.7 of OJK of non-financial listed companies 2012-2016 listed on BEI	Dummy Variables, companies that violate article VIII.G.7 on the guidelines for presentation and disclosure of financial statements with number 1. Furthermore, companies in violation of Article VIII.G.7 regarding the presentation and disclosure of financial statements shall be numbered 0 (zero).	Nominal Scale	Skousen <i>et al.</i> (2009)
Financial Target (Independent Variable)	Financial Information	Returns On Asset = $\frac{\text{Profit after Tax t-1}}{\text{Total Asset-1}}$	Ratio Scale	Skousen <i>et al.</i> (2009)
Ineffective Monitoring (Independent Variable)	Financial Information	BDOU = $\frac{\text{Number of Independent Commissioners}}{\text{Number of Board of Commissioners}}$	Ratio Scale	Skousen <i>et al.</i> (2009)
Rationalization (Independent Variables)	Financial Information	Change in Auditor (Δ CPA) Dummy variable, if a change of KAP within 3 years with number (one), if within 3 years do not experience change of KAP then given the number 0 (zero)	Nominal Scale	Skousen <i>et al.</i> (2009)
Capability (Independent Variable)	Financial Information	Change in Direction per(DCHANGE) Measured by Dummy variable, if experiencing Change in Direction within the period 2012-2016 with the number 1 (one), and if the company period 2012-2016 no change in direction then given the number 0 (zero).	Nominal Scale	Skousen <i>et al.</i> (2009)
Arrogance (Independent Variables)	Financial Information	Frequent number of CEO's Picture in an annual report	Nominal Scale	Crowe (2011)
Corporate Governance Mechanism (Board of Commissioners) (Moderating Variables)	Financial Information	The size of the board of commissioners is the proportion of the entire board of commissioners	Nominal Scale	Lipton dan Lorsch (1992)
Corporate Governance Mechanism (Commissioner Independen) (Moderating Variables)	Financial Information	Independent Commissioner is the number of members of the board of commissioners where from external or outside the company	Nominal Scale	Klein (2002)
Corporate Governance Mechanism (Institutional Ownership) (Moderating Variables)	Financial Information	Total ownership, by institutional investors	Nominal Scale	Jiang dan Andarajan (2009)

Source: Secondary data are processed (2018)

3. Case studies/experiments/demonstrations/application functionality

This research tested hypothesis with binary logistic regression to analyse influence of financial target, ineffective monitoring, change in auditor, change in direction and frequent number of CEO's Picture moderated by corporate governance mechanism to accounting fraud. According to Ghozali (2006) research with logistic regression ignores normality testing for independent variables. Since of this research used logistic regression where independent variables are combined non-metric and continue or metric categorical so that it will also ignores the problem of heteroscedasticity. Regression model 1 is on factors affecting accounting fraud. Furthermore, for model 2 with regression analysis technique based on interaction due to quasi moderating. Logistic regression model in hypothesis testing on model 1 is $\text{Ln} (F / 1-F) = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3 x_3 + \beta_4x_4 + e$ and testing model 2 hypothesis is $\text{Ln} (F / 1-F) = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3 x_3 + \beta_4x_4 + \beta_5x_5 + e$. Where, $\text{Ln} (F / 1-F)$ = The dummy variable, the firm commits the accounting fraud by the number 1 and who does not commit accounting fraud by 0, X_1 = Financial Targets, X_2 = Ineffective Monitoring, X_3 = Change in Auditor, X_4 = Change X_6 = Board of Commissioners, X_7 = Independent Commissioner, X_8 = Ownership of institutions, β_1 , β_2 , β_3 , β_4 , and β_5 (regression coefficients) and e = errors.

Based on the SPSS output then the test is done with various stages that must be passed such as: first, Assessing Hosmer and Lemeshow goodness of fit test or feasibility on the regression model. Second, coefficient is terminated and third, Assess Overall Model (Overall Model Fit). Furthermore, descriptive statistical analysis which includes the number of samples, mean, maximum and minimum and standard deviation.

Sample and Research Data

The following is the result of sample selection based on purposive sampling which resulted in 12 fraud companies and non-fraud companies of 32 for the period of 2012-2016. The details of the fraud and non-fraud sample selection procedures as shown in Table 2 and Table 3 are as follows:

Table 2. Sample Selection Procedure for Fraud Company

Sample Criteria	Companies that meet the criteria
The population of non-financial companies where the listing on the BEI in 2012-2016	411
Company violating article no. VIII.G.7 subject to sanctions from OJK in 2012-2016	39
The company has complete data in 2012-2016.	12
Number of Samples	12

Source: Secondary data are processed (2018)

Table 3. Sample Selection Procedure for Non-Fraud Company

Sample Criteria	Companies that meet the criteria
The population of non-financial companies where the listing on the BEI in 2012-2016	411
Has a period of time and sectors such as with fraud companies in violation of article no. VIII.G.7 subject to sanctions from OJK in 2012-2016	88
The company has complete data in 2012-2016.	32
Number of Samples	32

Source: Secondary data are processed (2018)

Descriptive Testing

The following is the result of statistical descriptive analysis data processing which helps to obtain a general picture related to independent variables, moderating variables and dependent variables. Descriptive statistical analysis is used to show the spread of research data. This analysis presents research data by looking at the mean (mean), standard deviation, maximum value and minimum value of research data. In this study using SPSS 22.0 program shown in Table 4 as follows:

Table 4. Descriptive Statistics Results

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Financial Targets	44	-.12	.44	.0921	.12124
Innefective Monitoring	44	.14	.50	.03510	.09081
Change in Auditor	44	.00	1.00	.6410	.48597
Change in Direction	44	.00	1.00	.4103	.49831
Arrogance	44	.00	28.00	7.5385	6.77397
Board of Commissioners	44	2.00	8.00	4.0513	1.45002

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Independent Commissioner	44	1.00	3.00	1.3846	.54364
Institutional Ownership	44	.25	.91	.5685	.14730
Accounting Fraud	44	.00	1.00	.3573	.46757

Source: Secondary data are processed (2018)

Based on the results of descriptive statistics test shows the number of samples of 44. The minimum value of the financial target has a value of -0.12 which indicates that the financial target (ROA) is considered very low. The maximum value is highest in the board of commissioner variables when compared to independent commissioners and other institutional or variable ownership. Furthermore, for the standard deviation is low, so the lower the standard deviation means the more homogeneous variables where the variation is less meaning that the data is good enough.

Hypothesis Testing

Testing the logistic regression hypothesis can be done by looking at the table of logistic coefficient test results in the significant column compared with the significance value used $\alpha = 5\%$. If the level of significance is < 0.05 , then H1 cannot be rejected or accepted. If the level of significance is > 0.05 , then H1 is rejected. The result of hypothesis testing with binary logistic regression is shown in Table 5 as follows:

Table 5. Hypothesis Test Results

Variable	Significance	Description
X1 → Y	0.113	Hypothesis 1 Rejected
X2 → Y	0.226	Hypothesis 2 Rejected
X3 → Y	0.121	Hypothesis 3 Rejected
X4 → Y	0.011*	Hypothesis 4 Accepted
X5 → Y	0.243	Hypothesis 5 Rejected
X1*Z1 → Y	0.567	Hypothesis 6a Rejected
X2*Z1 → Y	0.175	Hypothesis 6b Rejected
X3*Z1 → Y	0.831	Hypothesis 6c Rejected
X4*Z1 → Y	0.028*	Hypothesis 6d Accepted
X5*Z1 → Y	0.644	Hypothesis 6e Rejected
X1*Z2 → Y	0.253	Hypothesis 7a Rejected
X2*Z2 → Y	0.427	Hypothesis 7b Rejected
X3*Z2 → Y	0.550	Hypothesis 7c Rejected
X4*Z2 → Y	0.023*	Hypothesis 7d Accepted
X5*Z2 → Y	0.454	Hypothesis 7e Rejected
X1*Z3 → Y	0.645	Hypothesis 8a Rejected
X2*Z3 → Y	0.816	Hypothesis 8b Rejected
X3*Z3 → Y	0.240	Hypothesis 8c Rejected
X4*Z3 → Y	0.015*	Hypothesis 8d Accepted
X5*Z3 → Y	0.320	Hypothesis 8e Rejected

Note: *) Significant Value: 0.05 (5%)

Source: Secondary data are processed (2018)

The result of hypothesis test one (H1) proves that the financial targets variable (ROA) have positive but not significant effect to the possibility of fraudulent financial reporting with significance level of 0.113 and B 6,767. The results of this study support research conducted by Sihombing (2014) and Diany (2014). In the study stated that there is no influence between financial targets against the possibility of fraudulent financial reporting. The results of this study also support research conducted by Skousen *et al.* (2009) that the financial targets proxied with return on assets (ROA) have no effect on the possibility of accounting fraud.

The result of hypothesis two (H2) test shows that the ineffective monitoring (BDOU) has an insignificant effect on the number 0.226 and has a negative direction on the number B = -1,835. This is in line with the research that has been done by Skousen *et al.* (2009), Norbarani (2012), Martantya (2013), and Sihombing (2014) which also stated that ineffective monitoring (BDOU) has no significant influence in detecting accounting fraud. The result of hypothesis three (H3) showed that the variable of change in auditor (CPA) had negative and insignificant effect in detecting fraudulent financial reporting with significance level of 0.121 and B -0.389. This result is consistent with research conducted by Skousen *et al.* (2009), Diany (2014), and Sihombing (2014) who also stated that the change in auditor has no effect on accounting fraud.

The results of hypothesis four (H4) showed that the variable of company directors replacement (DCHANGE) had a negative and significant effect in detecting accounting fraud with significance level of 0.011 and B -0.007. Replacement of directors may be the company's attempt to get rid of directors who are deemed to know the fraud of the company and the change of board of directors is considered to require adaptation time so that initial performance is not maximal (Tessa and Harto 2016, 10). Wolfe and Hermanson (2004) argue that changes in directors are capable of causing a stress period that affects the more open opportunities for fraud.

The result of hypothesis five (H5) shows that the frequent number of CEO's picture (CEOPIC) variable has a positive and significant effect on accounting fraud with significance level of 0.243 and B0, 040. The test results prove that the more the number of CEO photos emblazoned in a report can indicate the high level of arrogance CEO in the company. A high level of arrogance can lead to fraud because with the arrogance and superiority of a CEO, the CEO feels that any internal control will not apply to him because of his status and position. According to Crowe (2011), there is also the possibility that the CEO will do whatever it takes to maintain the position and position it currently holds.

Based on Table 5 shows that H1 test results obtained significance value of 0.113 (>0.05) thus H1 is rejected. This is in line with the results of research Puspitrisnanty and Fitriyani (2014), Skousen *et al.* (2008); (2009) and Sukirman and Sari (2013) show ROA has no effect on accounting fraud. H2 test results obtained significance value of 0.226 (>0.05) thus H2 rejected. The results of this study are similar to the results of research Martantya (2013), Skousen *et al.* (2009), and Ratmono *et al.* (2013) showed that ineffective monitoring has no effect on accounting fraud. Furthermore, for testing H3 obtained significance value of 0.121 (>0.05) thus H3 rejected. This is in line with the results of research Firmanaya (2014) and Ratmono *et al.* (2013) where rationalization has no effect on accounting fraud. For H4 test, the significance value of 0.011 (<0.05) thus H4 is accepted change in direction is capable of giving birth to stress period, adaptation and adjustment which opens the opportunity for cheating. For testing of H5 we get the significance value of 0.243 (<0.05) thus H5 is rejected

Testing H6a with significance value of 0.567 (>0.05), H6b with significance value of 0.175 (>0.05), H6c with significance value of 0.831 (>0.05), H6d with significance value 0.028 (<0.05) and H6e with significance value 0.644 (<0.05). Thus H6a, H6b, H6c, H6e are rejected but H6d is accepted. The board of commissioners is able to moderate in this case weaken the change in direction relationship to accounting fraud because corporate governance mechanisms can be used by companies to align ownership and management interests.

H7a test result with significance value of 0.253 (>0.05), H7b with significance value of 0.427 (>0.05), H7c with significance value 0.550 (>0.05), H7d with significance value 0.023 (<0.05), H7e with significance value 0.454 (<0.05), then H7a, H7b, H7c, and H7e the hypothesis is rejected while H6d is accepted. Independent commissioners are able to moderate in this case to weaken the change in derision to accounting fraud because independent commissioners from outside the company are more focused and not easily influenced by anyone in monitoring, controlling and managing where a way is used to weaken the occurrence of accounting fraud.

Furthermore, the H8a test results with significance value of 0.645 (>0.05). H8b with significance value of 0.816 (>0.05), H8c with significance value 0.240, H8d with significance value 0.015 (<0.05), H8e with significance value 0.320 (<0.05). The test results show that H8a, H8b, H8c, H8e are rejected, but for H8d is acceptable. The ownership of the institution is able to moderate the change in direction to accounting fraud because the corporate governance mechanism focused on the owners of this company will certainly prevent accounting fraud.

Conclusion

Based on testing H1, H6a, H7a, and H8a rejected, test results H2, H6b, H7b, and H8c rejected. For test results H3, H6c, H7c, and H8c rejected. Further research results H4, H6d, H7d and H8d accepted test results H5, H6e, H7e, and H8e rejected. Limitations in this study that the number of samples is relatively small, due only to companies listed on the stock exchange alone.

Based on the result of analysis, conclusion, and limitations of this research, it is necessary to develop and improve for subsequent research to be better and there are some suggestions given for future research, among others: (1) Further research is suggested to expand the sector ie in sector government and in various countries. This is recommended because in the government sector there are also many cases of fraud but in the case of misuse of assets (2) Until now still rarely research that investigate cases of fraud in the financial and banking sector, whereas based on data from the Association of Certified Fraud Examiner (2014) fraud case most commonly in the financial and banking sectors. The next researcher is expected to develop research on the financial and banking sector or develop into the second most sectors that conduct fraud cases *i.e.* public sector government funds. (3) Related research fraudulent financial reporting, researcher hereinafter advised to use qualitative method in research methodology or use combination (Mixed Method) that is qualitative and

quantitative method. This is suggested because there are still many fraud elements that are difficult to measure when using only quantitative methods, such as rationalization and capability elements.

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