Potential Fraud Detection Analysis of Financial Statements: Diamond Fraud Approach

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Abstract
The motivation of this research is the existence of fraud that occurs in the financial reporting of entities both abroad and in Indonesia. This investigation aims to explain the detection of financial statements that have the potential to contain fraud using the Fraud Diamond approach. The sampling method in this research is purposive sampling for companies listed on the Indonesia Stock Exchange. The sample consists of 93 companies during the 2017-2019 financial statement period from the manufacturing industry. The analysis of research is a multiple linear regression model with a quantitative approach. Based on statistical studies, the financial target variable significantly positively affects the potential for fraud. External pressure has a significant negative effect on the potential for financial fraud. In contrast, financial stability, the nature of the industry, effective monitoring, rationalization, and capability have no effect on the potential for financial fraud.
Keywords: fraud, diamond, stability, pressure, industry, monitoring, rationalization

Introduction

This research is motivated by the phenomenon of fraudulent financial reporting of entities both in Indonesia and abroad. This study aims to explain the detection of potential fraudulent financial reporting with the fraud diamond approach. In Indonesia, there are several companies involved in financial fraud scandals such as that carried out by PT Kimia Farma Tbk. 2001 (Syahrul, 2003) and P Garuda Indonesia Tbk. in 2018 (Hartomo, 2019). The two companies carried out manipulation of financial reporting that could potentially mislead stakeholder decisions.

Abroad, Enron manipulated its finances to attract investors. This is done by recording profits in the financial statements and manipulating the financial statements so that no liabilities are recorded. When the accounting scandal broke in late 2001, Enron's stock price plummeted to $26 in less than a year (Deil, 2014). The case of financial statement fraud also happened to Toshiba Corp, they marked up operating profit of 151.8 billion or around USD1.22 billion since the last six years, namely between 2008 and 2014. Based on the results of the investigation, the scandal was carried out to meet the target set. difficult (Hakim, 2015). British Telecom has implemented an accounting fraud plan by increasing the company's revenue through fraudulent contract renewals, billing, and fraudulent transactions with providers. This fraudulent practice has been going on since 2013. The urge to receive bonuses has encouraged accounting fraud (Priantara, 2017).

Bukopin Bank manipulates financial statements on accounts (Banjarnahor, 2018). ACFE research results show that every year, an average of 5% of the organization's income becomes a victim of fraud (Association of Certified Fraud Examiner, 2016). Research conducted by ACFE in 2016 showed the total loss due to fraud reached USD 6.3 billion. Furthermore, per case the average loss reached more than USD 2.7 million (Nugraheni & Triatmoko, 2017). According to ACFE, fraud acts can be categorized as corruption, misappropriation of assets, and fraudulent financial reporting. This fraud is dominated by actions carried out by top level managers or parties who have the authority so that it is known as white-collar crime (Prasmaulida, 2016).

There are several previous studies that discuss financial statement fraud. Research conducted by Sartono (2013) concludes that financial statement fraud has a very bad impact on public companies and erodes the level of investor confidence in the bona fide of companies whose shares are traded on the Stock Exchange. The method used for fraudulent financial statements is to present the company's assets and revenues to be higher or lower than they are (Sihombing & Rahardjo, 2014). Suprajadi (2009) concluded that the perpetrators committed fraud because they believed that their actions would not be exposed. Therefore, it is necessary to take systematic steps to detect fraud, namely understanding fraud theory, observing fraud signals, and understanding fraud scenarios and fraud detection methods. There are things that distinguish this research from previous research related to the size of fraud, where this study uses the fraud score model (Dechow et al., 2011).

The results of this study are expected to be useful for investors, potential investors, creditors, potential creditors, financial analysts, and other users in detecting fraudulent financial reporting with the fraud diamond approach. In addition, the results of this study are expected to help the development of science, especially related to the concept of fraud detection in financial statements.

Literature Review and Hypotheses

Agency Theory

One of the common frauds carried out by management is manipulating the information contained in the financial statements so that the information held by management is different from the information held by shareholders or is referred to as asymmetric information (Jensen & Meckling, 2019). According to agency theory, managers are representatives of owners who are in charge of the company. For this reason, managers must be able to create and read financial reports.

Fraud

Fraud encompasses a variety of ways in which human intelligence gains an advantage over others through misrepresentation. There are no clear and consistent rules that can be used as the basis for defining fraud, because fraud includes surprise, cheating, and other ways to deceive others (Albrecht et al., 2012).

Financial Statement Fraud

According to Rezaee & Riley (2009), accounting fraud is a deliberate attempt by companies to deceive and mislead users of financial statements by presenting and manipulating the materiality value of financial statements. Fraud perpetrators in manipulating financial statements are usually in 2 ways (Association of Certified Fraud Examiner, 2016). First, presenting assets or income that is higher than it is. Second, perpetrators manipulate financial statements by presenting assets or income that are lower than they are.

Fraud Triangle Theory
According to Cressey (1953) introduced a fraud triangle that can be used to detect potential fraud, namely pressure, opportunity, and rationalization. Fraud occurs when the perpetrator feels compelled by himself or another person/organization (Cressey, 1953). The pressure is financial and non-financial. According to SAS No. 99 (AICPA, 2002), there are several conditions related to pressure that cause someone to commit fraud, namely: financial stability, external pressure, personal financial needs, financial goals.

Fraud acts can run smoothly if the perpetrator is able to do so (Sihombing & Rahardjo, 2014). This capability is used when the fraud perpetrator considers that the fraud committed has a low risk of being detected. According to SAS No. 99 (AICPA, 2002), there are several conditions for someone to commit fraud, namely: the nature of the industry, ineffective supervision, and organizational structure.

Rationalization is an attitude that allows a person to commit fraud and consider his actions as a natural thing (Suyanto, 2009). Fraudsters involved in fraudulent financial reporting systematically rationalize fraud by changing the rules. There are several conditions related to rationalization that cause someone to commit fraud, namely: changes in auditors and auditor opinions (Skousen et al., 2009).

Fraud Diamond Theory
The capability factor is added (Wolfe & Hermanson, 2004) to complement the theory that has been revealed in the research conducted by Cressy so that the new theory explains that there are 4 factors that influence a person to commit fraud known as the fraud diamond.

Earnings Management
According to Hamza & Lakhal (2010), earnings management is an intervention in the accounting process carried out by management for personal gain. Earnings management is motivated by management's desire to be well received by shareholders. Earnings management is a negative effect of using accrual accounting when compiling financial statements (Sihombing & Rahardjo, 2014).

The Effect of Financial Stability on the Potential for Fraudulent Financial Statements
Research by Iqbal & Murtanto (2016), Annisya et al. (2016), and Prasmaulida (2016) used total asset volatility (ACHANGE) as a measure of financial stability. As a result, financial stability has a significant positive impact on the potential for fraudulent transactions. These results support the research conducted by Skousen et al. (2009). From this it can be concluded that the higher the level of change in the total assets of a company, namely the higher the increase in the assets of a company, the more likely it is to have the potential for fraud. Based on this explanation, the hypotheses used in this study are:

H1: *financial stability has a positive effect on the potential for fraudulent financial statements.*

The Effect of External Pressure on Potential Fraudulent Financial Statements
Research by Indarto & Ghozali (2016), Iqbal & Murtanto (2016) and Zaki (2017) measured external pressure using a leverage ratio, so that external pressure has a significant positive effect on the possibility of fraud in financial statements. Manurung & Hardika (2015) and Fuadin (2017) show that external pressure has no significant effect on fraudulent financial reporting. However, Annisya et al. (2016) argue that external pressure has a significant negative effect on financial reporting fraud. Therefore, it can be concluded that the higher the value of the financial leverage ratio, namely the higher the monitoring of creditors in the

company, the lower the risk of fraud in management's financial statements. Based on this description, the hypotheses used in this study are:

H2: *external pressure has a negative effect on the potential for fraudulent financial statements.*

The Effect of Financial Targets on the Potential for Fraudulent Financial Statements

According to research by Indarto & Ghozali (2016), ROA has a significant positive effect on the potential for report fraud. In short, the higher the ROA objective of a company, the more likely it is that earnings management will commit financial statement fraud. If the ROA target is high, management will try to achieve it. If the company has a low ROA, management can manipulate financial reporting by increasing existing profits. Based on this explanation, the hypotheses used in this study are:

H3: *financial targets have a positive effect on the potential for fraudulent financial statements.*

The Influence of Nature of Industry on the Potential for Fraudulent Financial Statements

A study by Summers & Sweeney (1998) and Skousen et al. (2009) measured industry type in terms of the rate of change in total inventory and the rate of change in total receivables. The results of these two measures indicate that the type of industry has a significant positive impact on the potential for fraud. The higher the value of the company's total inventory volatility, the more likely it is to have the potential for fraud. This survey focuses on inventory because it uses the rate of change in total inventory as an industry indicator. Based on this explanation, the hypotheses used in this study are:

H4: *the nature of industry has a positive effect on the potential for fraudulent financial statements.*

Effect of Effective Monitoring on Potential Fraudulent Financial Statements

In this study, Beasley & Salterio (2001) concluded that the presence of an independent commissioner would increase the effectiveness of the board of commissioners overseeing operating results. This is also supported by the research of Dechow et al. (2011), which uses the percentage of independent commissioners as an indicator of effective monitoring. The results show that accounting fraud is more common in firms with few independent board members. Based on this explanation, the hypotheses formulated are:

H5: *effective monitoring has a negative effect on the potential for fraudulent financial statements.*

The Effect of Rationalization on the Potential for Fraudulent Financial Statements

Suyanto (2009) argues that rationalization is an attitude that is considered rational when someone commits fraud. Audit failure can be caused by several factors, one of which is the change of company auditors (Skousen et al., 2009). According to research by Loebbecke et al. (1989) and Skousen et al. (2009), the risk of audit failure is higher at the beginning of the auditor's tenure than in subsequent years. This shows that the more often companies replace external auditors, the more likely management will have the potential for fraud. Based on this explanation, the hypotheses used in this study are:

H6: *rationalization has a positive effect on the potential for fraudulent financial statements.*

The Effect of Capability on the Potential for Fraudulent Financial Statements

If no one could commit fraud in detail, fraud will not occur (Wolfe & Hermanson, 2004). A study by Manurung & Hardika (2015) uses the change of directors as a measure of their ability

to determine the possibility of fraudulent transactions. This study can show that changes in the board of directors have a significant positive impact on the likelihood of fraud. From this, we can conclude that the more frequently a company's directors change, the more likely they are to have the potential for fraud. Based on this explanation, the hypotheses used in this study are:

H7: *capability has a positive effect on the potential for fraudulent financial statements.*

Research Method

This research takes samples from the financial statements of companies listed in 2017-2019 on the Indonesia Stock Exchange (IDX) with the purposive sampling method. The data obtained were 31 companies that met the criteria through the selection stages of determining the sample for the year 2017-2019 (see Table 1). So, the number of samples included in this study was 93.

Table 1. Research Sampling Criteria

No	Description	Amount
1	Manufacturing companies listed on the Indonesia Stock Exchange for the period 2017-2019.	144
2	Companies that do not publish annual financial reports on the company website or the Indonesia Stock Exchange website during the 2017-2019 period.	(16)
3	Companies that use currencies other than rupiah.	(28)
4	Companies that experience losses, for at least one year during the 2017-2019 period.	(40)
5	Companies that were delisted from the Indonesia Stock Exchange during the 2017-2019 period.	(2)
6	Companies that change sectors during the 2017-2019 observation year.	(1)
7	Companies that have incomplete data during the 2017-2019 period.	(26)
	Number of companies for samples	31
	Total sample (31 companies x 3 years)	93

The potential for fraudulent financial reporting is used as the dependent variable as measured by the fraud score (F-Score) model of Dechow et al. (2011). The F-Score model is obtained from the sum of financial performance and accrual quality (Skousen & Twedt, 2009), with the following equation:

$$F_{score} = Accrual\ quality + Financial\ Performance \dots\dots\dots\dots (Eq.1)$$

where accrual quality is calculated by RSST accrual as follows:

$$RSST_{accrual} = \frac{(\Delta\ Working\ capital + \Delta\ Noncurrent\ operating + \Delta\ Financial\ accrual)}{Average\ Total\ Assets} \dots (Eq.2)$$

$$Working\ capital = Current\ assets - Current\ liabilities \dots\dots\dots\dots (Eq.3)$$

$$Noncurrent\ operating = \begin{pmatrix} Total\ assets - \\ Current\ assets - \\ Investment\ Advanced \end{pmatrix} - \begin{pmatrix} Total\ liabilities - \\ Current\ liabilities - \\ Long\ term\ debt \end{pmatrix} \dots (Eq.4)$$

$$Financial\ accrual = Total\ investment - Total\ liabilities \dots\dots\dots (Eq.5)$$

$$Average\ total\ assets = \frac{Beginning\ Total\ assets + Ending\ Total\ assets}{2} \dots\dots\dots (Eq.6)$$

Furthermore, financial performance can be measured by the following equation:

$$Financial\ performance = \begin{pmatrix} Change\ in\ receiveables\ + \\ Change\ in\ inventories\ + \\ Change\ in\ cash\ sales\ + \\ Change\ in\ earnings \end{pmatrix} \dots \dots (Eq.7)$$

$$Change\ in\ receiveables = \frac{\Delta\ Receiveables}{Average\ Total\ assets} \dots \dots (Eq.8)$$

$$Change\ in\ inventories = \frac{\Delta\ Inventories}{Average\ Total\ assets} \dots \dots (Eq.9)$$

$$Change\ in\ cash\ sales = \frac{\Delta\ Sales}{Sales_t} - \frac{\Delta\ Receiveables}{Receiveables_t} \dots \dots (Eq.10)$$

$$Change\ in\ earnings = \frac{Earnings_t}{Average\ Total\ assets_t} - \frac{Earnings_{t-1}}{Average\ Total\ assets_{t-1}} \dots (Eq.11)$$

Financial stability is measured by the following equation, namely by looking at changes in total assets (Skousen et al., 2009):

$$ACHANGE = \frac{(Total\ Assets_t - Total\ Assets_{t-1})}{Total\ Assets_{t-1}} \dots \dots (Eq.12)$$

External pressure is measured by the ratio of debt to total assets (Skousen et al., 2009):

$$Debt\ to\ Assets\ Ratio = \frac{Total\ Debt}{Total\ Assets} \dots \dots (Eq.13)$$

Financial targets are measured by the level of achievement of the expected return on total assets controlled or return on assets (ROA) with the following equation (Skousen et al., 2009).

$$ROA = \frac{Earnings\ after\ interest\ and\ tax}{Total\ Assets} \dots \dots (Eq.14)$$

The nature of the industry is the ideal condition of the company in the industry. The economic and regulatory environment of the industry requires businesses to use subjective judgment when estimating the number of non-performing loans and obsolete inventories (Summers & Sweeney, 1998). Therefore, this study uses the rate of change in total inventory as an industry indicator which is calculated as follows:

$$Inventory = \frac{Inventory_t}{Sales_t} - \frac{Inventory_{t-1}}{Sales_{t-1}} \dots \dots (Eq.15)$$

Earnings management will decrease when monitoring is carried out effectively (Andayani, 2010). Effective monitoring is measured by an independent board of commissioners (BDOUT), as follows:

$$BDOUT = \frac{Total\ Independent\ Boards}{Total\ Boards} \dots \dots (Eq.16)$$

Rationalization is measured by auditor turnover (AUDCHANGE). Auditor turnover is a dichotomous variable, in this case if there is a change in auditors, a score of 1 is given, otherwise a score of 0 is given. The results of previous studies indicate an increase in audit

failure when there is a change of auditors (Skousen et al., 2009). Rationalization tends to increase when there is a change in internal audit.

Capability is proxied by the change of company directors (DCHANGE). If there is a change of directors, a score of 1 is given, otherwise 0. Previous research has shown that there is a stress period when there is a change of directors so that the opportunity for fraud increases (Wolfe & Hermanson, 2004).

The research hypotheses are tested using multiple linear regression analysis approach, with the following equation:

$$F_{score} = \beta_0 + \beta_1 ACHANGE + \beta_2 LEV + \beta_3 ROA + \beta_4 INVENTORY + \beta_5 BDOUT + \beta_6 AUDCHANGE + \beta_7 DCHANGE + e \dots\dots\dots\dots(Eq.17)$$

Where F-Score indicates Potential fraud, ACHANGE indicates Ratio of change in total assets, LEV indicates Ratio of total liabilities per total asset, ROA is Return on investment ratio, INVENTORY indicates Ratio of change in total inventory, BDOUT indicates Ratio of independent commissioners, AUDCHANGE indicates Change of auditor, and DCHANGE indicates Change of directors. $\beta_0,\dots, \beta_7$ indicates regression coefficients and e indicates error term.

Results and Discussion

Descriptive Statistics Analysis

The potential for fraud as measured by the FSCORE index shows a minimum value of 2.63417, the company Ultrajaya Milk Industry Tbk. The maximum value of 5,91954 is the company Asahimas Flat Glass Tbk. The average FSCORE indicator is 0.5323681. The variability of the data on the FSCORE indicator is 0.89249963. Financial stability as measured by ACHANGE shows a minimum of 0.99878, Ultrajaya Milk Industry Tbk 2018. The maximum is 11.67849, namely Asiaplast Industries Tbk for 2018. The average ACHANGE index is 0.2033460. The standard deviation of the ACHANGE indicator is 1.22012333.

Table 2. Results of Descriptive Statistics Analysis

Variables	N		Mean	Std. Dev.	Minimum	Maximum
	Valid	Missing				
F-SCORE	93	0	0.5324	0.8925	-2.6342	5.9195
ACHANGE	93	0	0.2033	1.2201	-0.9988	11.6785
LEV	93	0	0.3747	0.2600	0.0589	2.1613
ROA	93	0	0.2053	0.7830	0.0051	7.2111
INVENTORY	93	0	0.0101	0.0842	-0.1214	0.7176
BDOUT	93	0	0.3899	0.0802	0.2857	0.6667
AUDCHANGE	93	0	N/A	N/A	0	1
DCHANGE	93	0	N/A	N/A	0	1

External pressure as measured by the LEV indicator shows a minimum of 0.0589, at Argha Karya Prima Industry Tbk. The maximum is 2.1613, which is Asiaplast Industries Tbk. The average LEV-indicator is 0.3747. The standard deviation of the LEV indicator is 0.2600. The financial target as measured by the ROA indicator shows a minimum of 0.0051, at Argha Karya Prima Industry Tbk. Maximum 7,2111, namely Asahimas Flat Glass Tbk. The average ROA index is 0.2053. The standard deviation of the ROA indicator is 0.7830.

Nature of industry as measured by the INVENTORY indicator has a minimum of 0.1214, or Indo Acidatama Tbk. If the maximum value is 0.7176, it is Delta Djakarta Tbk. The average INVENTORY indicator is 0.0111. The standard deviation of the INVENTORY indicator is 0.0842. Effective monitoring as measured by the BDOUT indicator has a minimum of 0.2857 and a maximum of 0.6667. The average BDOUT indicator is 0.3899. The standard deviation of the BDOUT indicator is 0.0802.

The minimum rationalization scores as measured by AUDCHANGE is 0. In other words, it is a company that has not experienced external auditor turnover. The highest score of 1 is for companies that have experienced changes in their external auditors. Capability as measured by the DCHANGE indicator shows a minimum of 0, that is, a company that has not experienced a change of directors. The maximum value is 1, is a company that has a change of director.

This study uses a multiple linear regression approach, in this case it has passed the classical assumption test, namely the normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

Coefficient of Determination

The adjusted R^2 value shows 0.627, which means that the potential for fraud can be explained by an independent variable of 62.7%, while 37.3% is explained by other variables outside this research model.

Table 3. Coefficient of Determination Results

Model	R	R Square	Adjusted R Square
1	0.810	0.656	0.627

F-test

The F test shows that the regression model used in this study is feasible to detect potential financial statement fraud (significance value 0.000).

Table 4. F-test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	48.051	7	6.864	23.125	0.000
Residual	25.232	85	0.297		
Total	73.283	92			

The Impact of Financial Stability on Potential Financial Statement Fraud

Financial stability as measured by ACHANGE has a coefficient of 0.047 and a significance level of 0.319. Because the value is greater than 0.05, it means that financial stability has no statistically significant effect on the potential for fraudulent financial statements. The company may have a good early warning system for its financial condition. These results indicate that the performance of commissioners and internal auditors is very good in supervising all actions taken by management, especially those related to finance. When the company experiences a situation like this, the company should improve the supervision system, so that management does not commit fraud. The results of this study are not in line with the results of research conducted by Yesiarani (2016) and Fuadin (2017).

Table 5. Hypothesis Test Results

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.794	0.292		2.720	0.008
ACHANGE	0.047	0.047	0.065	1.002	0.319
LEV	-1.246	0.238	-0.363	-5.232	0.000
ROA	0.857	0.074	0.752	11.534	0.000
INVENTORY	0.257	0.688	0.024	0.374	0.709
BDOUT	0.001	0.740	0.000	0.002	0.999
AUDCHANGE	-0.105	0.142	-0.052	-0.737	0.463
DCHANGE	0.068	0.133	0.037	0.514	0.609

The Impact of External Pressure on Potential Fraudulent Financial Statements
The coefficient of external pressure as measured by LEV is 1.246 and its significance level is 0.000. This value means that external pressure has a significant negative impact on the potential for fraud. Therefore, the hypothesis that leverage has a negative impact on the potential for fraud is statistically supported. External pressure is in the form of high credit risk due to the size of the company's credit or debt to creditors. As a result, company owners try to make creditors believe in their performance. The results of this study support research conducted by Annisya et al. (2016) and Nugraheni & Triatmoko (2017) and find that external pressure has a significant negative impact on the potential for fraud.

The Impact of Financial Targets on Potential Fraudulent Financial Statements
The coefficient of financial target as measured by ROA is 0.857 and the significance level is 0.000. This value means that the financial target has a significant positive effect on the possibility of fraudulent reporting. The higher the ratio of net income to the company's total assets, the more likely it is to have the potential for fraud. From this, we can conclude that hypothesis 3 is statistically supported. Increasing the entity's financial targets will lead to potential management fraud.

Entities are still advised to continue to have high profit targets for the benefit of the company so as not to go bankrupt. However, companies must add a good supervisory system to financial governance, so that fraud perpetrators in management do not manipulate financially. The results of this study are not in line with the results of research conducted by Sihombing & Rahardjo (2014), Iqbal & Murtanto (2016), Annisya et al. (2016), and Zaki (2017).

The Impact of Nature of Industry on the Potential for Fraudulent Financial Statements
Nature of industry as measured by INVENTORY is 0.257 and the significance level is 0.709 > 0.05. This value means that the type of industry does not affect the possibility of potential fraud. This does not affect the possibility of fraudulent transactions, regardless of the level of fluctuations in the company's total inventory. From this we can conclude that hypothesis 4 is not statistically supported.

Management will not potentially commit fraud when the total inventory in the company is high. The perpetrators will do window dressing, but this does not at all affect the ratio of changes in total inventory, so they assume that their fraud is in vain. Under certain conditions, if the company encounters an unforeseen situation beyond the control of management, the company needs to improve the existing monitoring system. Internal audit and the board of commissioners must be able to prevent and detect fraud, especially for accounts that are

sensitive to fraud, including inventory accounts. The results of this study are not in line with Summers & Sweeney (1998) in Skousen et al. (2009).

The Impact of Effective Monitoring on Potential Fraudulent Financial Statements
The effective monitoring factor as measured by BDOUT is 0.001 and the significance level is $0.999 > 0.05$. This value means that effective monitoring does not affect the likelihood of fraud. This does not affect the possibility of fraudulent transactions, regardless of the percentage of independent commissioners in the company. Therefore, hypothesis 5 is not statistically supported. This is very possible, given that the independent board of commissioners has an independent nature, so nothing can influence them to commit fraud.

Although the number of the board of commissioners has no effect at all on the potential for fraudulent financial statements, the advice that must be given to the company is to always be selective in determining external individuals who are included in the board of commissioners. It must be ensured that external individuals are capable and highly committed. In addition, the entity must also act decisively on the independent board of commissioners who are indeed proven to have committed fraud. The results of this research are in line with the research results of Manurung & Hardika (2015), Iqbal & Murtanto (2016), and Prasmaulida (2016).

The Impact of Rationalization on the Potential for Fraudulent Financial Statements
The rationalization factor as measured by AUDCHANGE has a coefficient of 0.105 and a significance level of $0.463 > 0.05$. This value means that rationalization does not affect the possibility of fraud. Regardless of how often the company's external auditors who perform audits change, this does not affect the potential for fraud. From this we can conclude that hypothesis 6 is not statistically supported.

This is because the company's management always pays professional attention to the performance of the selected external auditor. In short, rationalization of fraud is not a habit or benchmark for committing fraud. In selecting or concluding an employment contract with an external auditor (accounting firm), all the company needs to do is choose a accounting firm that is healthy and has a good track record. In addition, companies must be able to create and understand a healthy organizational culture and an attitude of not rationalizing fraud to all stakeholders in the company to stay away from the word fraud. The results of this study are in line with the research of Manurung & Hardika (2015) and Indarto & Ghozali (2016).

The Impact of Capability on Potential Fraudulent Financial Statements
The ability as measured by DCHANGE has a coefficient of 0.068 and a significance level of $0.609 > 0.05$. This value means that the capability does not affect the possibility of fraudulent financial reporting. Regardless of how often the company changes its directors, this does not affect the possibility of fraudulent financial statements. From this we can conclude that hypothesis 7 is not statistically supported.

The replacement of directors with new ones can also have a good impact on the company because the new directors may have more up-to-date capabilities. Therefore, there is no effect of the change of directors on the potential for fraudulent financial statements. If in special cases and certain conditions the directors must be replaced with new ones, the company must still be selective and competitive in selecting candidates to replace the old directors. It is better to pay attention to several crucial aspects such as how they performed in their previous positions, what vision and mission they brought, and what things will be done to advance the company going forward, as well as what contributions they will make when they take office. The results of this research are in line with those of Annisya et al. (2016) and Zaki (2017).

Conclusion

Based on the results of statistical analysis, it is shown that only the financial target variable has a statistically significant positive effect on detecting potential financial statement fraud. The external pressure variable has a significant negative effect in detecting the potential for fraudulent financial statements. While the variables of financial stability, nature of industry, effective monitoring, rationalization, and capability have no effect in detecting the potential for fraudulent financial statements. Further research can use other approaches in detecting potential fraudulent financial statements, such as the pentagon fraud. In addition, further research can expand the research sample, by adding new indicators that could potentially lead to fraud. This research was conducted in the scope of the business sector, so that further research is very possible using samples for the public sector or business entities under government institutions.

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