

Diamond Fraud Analysis In Detecting Fraud In Financial Reports Using The Beneish M-Score Model (Empirical Study of LQ-45 Companies Listed on the Indonesia Stock Exchange 2018-2022)

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ABSTRACT

This study aims to determine the effect of the Fraud Diamond on the occurrence of financial statement fraud in companies. The independent variables used in this study are Financial Target, Financial Stability, External Pressure, Opportunity, Rationalization, and Capability. In this study, Financial Statement Fraud is measured using the Beneish M-Score Model. The population used in this study are companies classified in the LQ-45 listed on the Indonesia Stock Exchange (IDX) during the 2018-2022 period. The sampling method used in this study is a purposive sampling method, the sample obtained is 20 companies. The data used is secondary data in the form of financial statements. Data analysis uses logistic regression analysis with the help of SPSS 29 software. The results of this study indicate that the variables Financial Target, Financial Stability, Opportunity, and Rationalization do not affect the potential for financial statement fraud. While the variables External Pressure and Capability affect the potential for financial statement fraud

Keywords: Financial Target, Financial Stability, External Pressure, Opportunity, Rationalization, Capability, and Financial Reporting Fraud,

INTRODUCTION

Basically, financial reports can generate decisions regarding the company's future strategy and other important decisions. Financial reports also have a significant impact on investor confidence in a company. If the results of a financial report show positive results, then investor confidence in the company will increase and vice versa. Based on this, a company has a tendency to present positive financial report results to attract the interest of investors or stakeholders in the company. Therefore, many company managements manipulate or manipulate financial reports, which is one part of fraud. According to Karyono (2013), fraud is a deception that contains the meaning of deviation and illegal acts, which are carried out intentionally for a specific purpose, such as deceiving or providing a false picture (misleading) to other parties, carried out by people both from within and from outside the organization. There are three types of fraud: asset misappropriation, corruption, and financial statement fraud.



*Association of Certified Fraud Examiners*The Indonesian Chapter of the ACFE (Accounting for Financial Conduct and Financial Conduct) conducted a survey in 2019 on the most common types of fraud in Indonesia, with 239 respondents. The survey revealed that corruption, the most common type of fraud in Indonesia, was chosen by 154 respondents (64.4%), followed by misuse of state and corporate assets (28.9%), and financial reporting fraud (6.7%), chosen by 16 respondents.



Source: ACFE Indonesia Chapter (2019).

One example of a case in Indonesia is the alleged manipulation of financial reports by PT Waskita Karya Tbk and PT Wijaya Karya Tbk. Indications of manipulation of Waskita Karya and Wijaya Karya's financial reports were detected after banks suspected discrepancies in invoices during the credit restructuring of the two state-owned construction companies. The revelation of this case, which occurred long after the two companies' financial reports were posted on the IDX, should be a matter of particular concern. Banks' vigilance also increased after the emergence of a fictitious project case that ensnared Waskita Karya President Director Destiawan Soewardjono at the end of April. Without these alleged corruption, Waskita Karya would have continued and WIKA could have slid along with their lies. The manipulation tactics used by Waskita and WIKA were relatively simple. They manipulated the bookkeeping by hiding a pile of invoices from vendors dating back to 2016. The disappearance of these liabilities reduced their debt burden and made their financial condition appear healthy even though both were in financial difficulties. In 2020, WIKA reportedly earned a net profit of IDR 322 billion, then that figure dropped to IDR 214 billion the following year and dropped to IDR 12.5 billion in 2022. Meanwhile, Waskita recorded a decrease in net loss from IDR 9.28 trillion in 2020 to IDR 1.67 trillion in 2022.

LITERATURE REVIEW

Agency Theory

Agency theory explains the working relationship between two parties within a company: the first party as the shareholder (principal) and the second party as the management (agent). According to Jensen and Meckling (1976), in agency theory, an agency relationship arises when one or more people (principals) employ another person (agent) to provide a service and then delegate decision-making authority to that agent. In practice, managers are more knowledgeable about the company's internal information and future prospects than shareholders. Therefore, managers are obligated to convey

information about the company to shareholders. This information is used by shareholders to analyze the returns from their investments in the company. However, the information provided by managers sometimes does not reflect the actual state of the company. This condition is called information asymmetry.

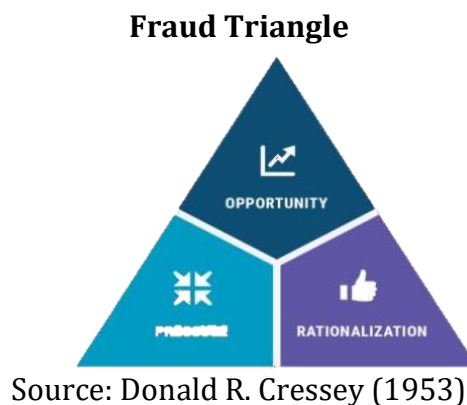
Fraud

Fraud is an intentional act or omission designed to deceive another person, resulting in a loss for the victim. Fraud can be classified as fraudulent financial reporting, misappropriation of assets, and inappropriate or unauthorized expenditures (The Institute of Internal Auditors (IIA), 2007). All parties within a company can commit fraud, and fraud is considered a crime, but not all crimes are categorized as fraud.

Financial statements

Financial reports are the result of the accounting process and can be used as a tool to communicate financial data or company activities to interested parties. Financial reports are reports that show a company's current financial condition or over a specific period (Kasmir, 2019).

Fraud Triangle



Fraud triangle It is widely used to identify and assess fraud risks in a company. The fraud triangle, also known as Cressey's Theory, is based on research conducted by Donald R. Cressey in 1953. His research identified three factors that can lead to fraudulent behavior: pressure, opportunity, and rationalization.

Fraud Diamond

The fraud diamond theory, or fraud quadrilateral, is a refinement of the fraud triangle theory. This theory, proposed by Wolfe and Hermanson (2004), adds the element of capability and argues that fraud can occur if an individual possesses the appropriate skills to execute every detail of the fraud. The following illustrates the fraud diamond:

DIAMOND FRAUD



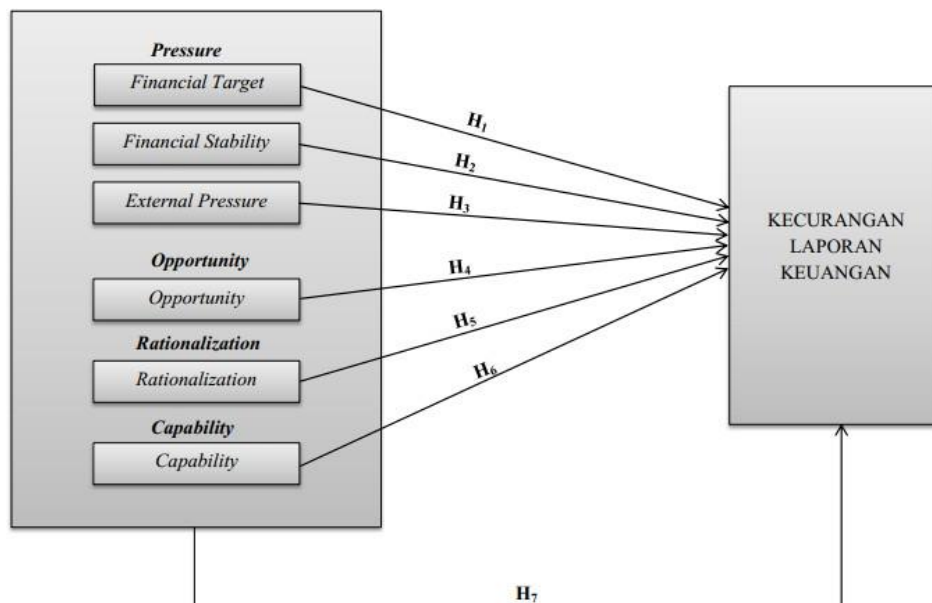
Source: Wolfe and Hermanson (2004)

Many frauds, especially those worth billions, would not occur without the presence of the right people with the right skills. Individual capability is the ability of a person to play a significant role and potentially commit fraud (Linda Wulandari, 2022). Several components of individual capability can contribute to fraud, including a person's position in the company, intellectual level, self-confidence, ability to impose one's will, consistent dishonesty, and immunity to depression.

Beneish M-Score Model

Beneish M-Score Model is a tool used to detect manipulation in financial reports developed by a professor from Indiana University Bloomington named Messod D. Beneish. Increased recorded sales and receivables, as well as an unreasonable decrease in recorded assets and gross profit are a depiction of an unusual condition in the financial report (Beneish, 1999).

Research Framework



Research Hypothesis

The influence of financial targets on financial reporting fraud

Research conducted by Linda Wulandari (2022) demonstrated that pressure, as measured by return on assets (ROA), has no effect on financial statement fraud. This is because return on assets is not the primary factor driving individuals to commit financial

statement fraud. However, research by Abimanyu Surya Wijarnako (2020) contrasts this with research that demonstrated that return on assets (ROA) significantly influences the occurrence of financial statement fraud. This suggests that the higher the targeted ROA, the greater the likelihood of financial statement fraud. Based on this, the following hypothesis is formulated:

H1: Financial targets have an influence on the occurrence of financial reporting fraud.

The influence of financial stability on financial reporting fraud

Research conducted by Abimanyu Surya Wijarnako (2020) used the company's total asset change ratio as a proxy for financial stability. The results showed that the higher the total asset change ratio generated by a company, the higher the level of financial statement fraud committed by company management. However, this contrasts with research by Nia Septiani (2023), which showed that financial stability, proxied by ACHANGE or the company's total asset change ratio, had no effect on financial statement fraud. Based on this, the following hypothesis is formulated:

H2: Financial stability has an impact on the occurrence of financial reporting fraud.

The influence of external pressure on financial reporting fraud

Research conducted by Nadia, N., et al. (2023) found that pressure, as measured by the leverage ratio, has a positive and significant effect on financial statement fraud. Meanwhile, research by Lutfiana Oktarigusta (2017) found that external pressure, as measured by the leverage ratio, had no effect on the likelihood of financial statement fraud. Based on this, the following hypothesis is formulated:

H3: External pressure has an influence on the occurrence of financial reporting fraud.

The influence of opportunity on financial reporting fraud

Research conducted by Lina Wulandari (2022) found that opportunity partially influences financial reporting fraud in companies. Meanwhile, research by Abimanyu Surya Wijanarko (2020) found that opportunity had no effect on financial reporting fraud. These results do not prove that if a company is audited by an external auditor from a Big 4 public accounting firm, the chances of detecting financial reporting fraud are greater. Based on this, the following hypothesis is formulated:

H4: Opportunity has an influence on the occurrence of financial reporting fraud.

The effect of rationalization on financial reporting fraud

Research conducted by Abimanyu Surya Wijarnako (2020) demonstrated that the more frequently a company changes its auditors, the higher the risk of financial statement fraud committed by company management. Conversely, research by Lina Wulandari (2022) demonstrated that rationalization, proxied by auditor changes, has no effect on financial statement fraud. This is because auditor changes are not the primary factor driving individuals to commit financial statement fraud. Based on this, the following hypothesis is formulated:

H5: rationalization has an effect on the occurrence of financial reporting fraud.

The influence of capability on financial reporting fraud

Research conducted by Lina Wulandari (2022) states that, partially, changes in directors have a significant influence on financial reporting fraud in companies. However, research by Abimanyu Surya Wijanarko (2020) and Nurun et al. (2023) proves that capability, as measured by changes in directors, has no effect on financial reporting fraud.

This may occur because companies that change directors do not want to cover up fraud, but rather because they want to improve company performance by recruiting new directors who are considered more competent than the previous directors. Based on this, the following hypothesis is formulated:

H6: capability has an effect on the occurrence of financial reporting fraud.

The influence of financial targets, financial stability, external pressure, opportunity, rationalization, and capability on financial reporting fraud

The previous hypotheses explained that financial targets, financial stability, external pressure, opportunity, rationalization, and capability, when proxied by other measures, influence financial statement fraud. Therefore, it is concluded that financial targets, financial stability, external pressure, opportunity, rationalization, and capability influence financial statement fraud. Based on this, the following hypotheses are formulated:

H7: Financial targets, financial stability, external pressure, opportunity, rationalization, and capability influence the occurrence of financial reporting fraud.

METHODS

Objects and Types of Research

The object of research is anything in any form determined by the researcher to be studied to obtain information about it, and then draw conclusions (Sugiyono, 2019). The objects used in this study were Lq-45 companies listed on the Indonesia Stock Exchange in 2018-2022. The type of research used in this study is a quantitative method.

Data Collection Sources and Techniques

The data sources used in this study are Primary Data. According to Sugiyono (2019), primary data is a data source that directly provides data to data collectors, for example through interviews, questionnaires, and observations. Secondary Data According to Sugiyono (2019), secondary data is a source that does not directly provide data to data collectors. The secondary data in this study are in the form of annual reports of companies listed on the LQ-45 listed on the Indonesia Stock Exchange for 2018-2022, obtained from the website www.idx.co.id. Meanwhile, data collection techniques use observation and literature studies.

Population and Sample

This study used the financial statements of LQ-45 companies listed on the Indonesia Stock Exchange for the period 2018-2022. According to Sugiyono (2019), a sample is a portion of a population that represents a portion of the population with certain characteristics. Purposive sampling was used in this study as a method for determining the research sample. Purposive sampling is sampling based on desired criteria to determine the number of samples to be studied (Sugiyono, 2019). The following are the sampling criteria:

Table 1 Population and Sample

No	Sample Criteria	Amount
1	LQ-45 companies listed on the Indonesia Stock Exchange (IDX) in 2018-2022.	45

2	The company did not delist from the Indonesia Stock Exchange (IDX) during 2018-2022.	(20)
3	The company presents financial reports in rupiah currency.	(5)
4	The company's annual financial report provides complete data related to the research variables.	0
AMOUNT		20
TOTAL SAMPLE (20 x 5)		100

Source: Data Processed by Researchers (2023)

Data Analysis Methods

Descriptive Statistical Analysis

According to Ghazali (2018), descriptive statistical analysis provides a description of data that can be measured using the average value (mean), standard deviation, variance, maximum, sum, range, kurtosis, and skewness of the distribution. The data analysis is not intended to produce general conclusions but only to describe the data that has been collected.

Logistic Regression

Logistic regression was used because the dependent variable was a dummy variable (either not committing fraud or committing fraud), where the number 0 was assigned to companies that did not commit fraud and the number 1 was assigned to companies that did. According to Ghazali (2006), the logistic regression data analysis method does not require classical assumption tests and normality tests on the independent variables. The logistic regression model equation used in this study is:

$$\text{M-SCORE} = \alpha + \beta_1.\text{ROA} + \beta_2.\text{ACHANGE} + \beta_3.\text{LEV} + \beta_4.\text{BIG} + \beta_5.\text{CPA} + \beta_6.\text{DCHANGE} + \epsilon$$

Information :

M-SCORE = financial reporting fraud, using a dummy variable where code 0 is given to companies that do not commit financial reporting fraud and code 1 is given to companies that do commit fraud.

α = Constant

β = Variable Coefficient

ROA = Return on Assets Ratio

CHANGE = Total Asset Change Ratio

LEV = Leverage Ratio

BIG = Quality of External Auditors

CPA = Change of Public Accounting Firm

DCHANGE = Change of Board of Directors ϵ = Error Term

Hosmer and Lemeshow's Goodness Of Fit Test

The first step in logistic regression analysis is to perform the Hosmer and Lemeshow's Goodness of Fit Test. This test is useful for determining whether the empirical data used fits the research model. If the statistical value of the Hosmer and Lemeshow's Goodness of Fit Test is equal to or less than 0.05, there is a significant difference between the model and the observed values. Conversely, if the Hosmer and

Lemeshow's Goodness of Fit Test is greater than 0.05, the model is acceptable because it is able to predict the observed values (Ghazali, 2006).

Overall Model Fit Testing

The next step is the overall model fit test, which functions to test the entire model. The overall model fit test is carried out by comparing the -2 Log Likelihood value at the beginning (Block Number = 0) with the -2 Log Likelihood value at the end (Block Number = 1).

- a. If the value between -2 Log Likelihood at the beginning (Block Number = 0) is smaller than the value of -2 Log Likelihood at the end (Block Number = 1), it indicates that the hypothesized model does not fit the data.
- b. If the value between -2 Log Likelihood at the beginning (Block Number = 0) is greater than the value of -2 Log Likelihood at the end (Block Number = 1), it shows that the hypothesized model fits the data.

Correlation Matrix Testing Between Independent Variables

Seeing the magnitude of the correlation between the independent variables in the research is done by testing the correlation matrix between the independent variables. The regression model can be said to be good, if there are no symptoms of strong correlation between the independent variables. (1) If the value of the correlation between variables shows results equal to or more than 0.8 (≥ 0.8), then there are symptoms of strong correlation between the independent variables. (2) If the value of the correlation shows less than 0.8 (≤ 0.8), then there are no symptoms of correlation between the independent variables.

Simultaneous Significance Testing (Omnibus Test)

In the omnibus test, it is equivalent to the overall F test in linear regression (Meyers, 2006 in Yeni Kartika DN, 2019). If the significance value in the omnibus test table is less than 5%, it can be said that the independent variables jointly influence the dependent variable. From this explanation, the hypothesis and decision-making criteria in this study are as follows: H_a : all independent variables influence the dependent variable. 1) If the sig value is > 0.05 , then H_a is rejected. 2) If the sig value is < 0.05 , then H_a is accepted.

Nagelkerke R² Test

The modification of the Cox and Snell's coefficient used to ensure that the value varies from 0 to 1 is called the Nagelkerke R² (Ghazali, 2006). (1) If the test results are close to 0, it can be interpreted that the independent variables have limitations in explaining the dependent variable. (2) If the test results are close to 1, the independent variables are able to explain and can provide almost all the information needed to predict the dependent variable.

Hypothesis Testing

This test is conducted to examine how the independent variable influences the dependent variable. The significance level used in this study is 5% or 0.05. The standards used are as follows:

- a. If the significance value is ≤ 0.05 or 5% and the regression coefficient is in accordance with the expected, then H_a is supported.
- b. If the significance value is ≥ 0.05 or 5% and the regression coefficient does not match the hope, then H_a is not supported.

If the significance value is equal to 0.05 or 5% and the regression coefficient is as expected, then H_a is supported

RESULTS AND DISCUSSION

Data analysis

Descriptive Statistical Analysis

The characteristics presented in descriptive statistical analysis are the maximum value, minimum value, mean value, and standard deviation value. The following table presents the results of the descriptive statistical analysis:

Table 2 Results of Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Standard Deviation
ROA	100	.000	.467	.08513	.088698
CHANGE	100	-.119	.626	.08026	.103759
LEVERAGE	100	.112	.890	.53558	.233094
BIG	100	0	1	.90	.302
CPA	100	0	1	.07	.256
DCHANGE	100	0	1	.75	.435
M-SCORE	100	0	1	.19	.394
Valid N (listwise)	100				

Source: SPSS Data Processing Results, 2024

The financial target variable, measured by the ROA indicator, has a minimum value of 0.000 and a maximum value of 0.467. The average value of the financial target variable is 0.08513, indicating the company's average profit of 8.513% of total assets during the 2018-2022 period. Meanwhile, the standard deviation value for the financial target variable is 0.088698.

The financial stability variable, measured by the total asset change ratio (ACHANGE), has a minimum value of -0.119 and a maximum value of 0.626. The average value of the financial stability variable is 0.08026, indicating that an 8.026% total asset change ratio occurred in the sample of companies listed in the LQ-45 for the 2018-2022 period. Meanwhile, the standard deviation value for the financial stability variable is 0.103759.

The external pressure variable, calculated using the ratio of total liabilities to total assets (leverage), has a minimum value of 0.112 and a maximum value of 0.890. This variable has an average value of 0.53558, meaning the company's debt to creditors is 53.558% of its total assets. Meanwhile, the external pressure variable has a standard deviation of 0.233094.

The opportunity variable, which is proxied by the quality of external auditors (BIG), has a minimum value of 0 and a maximum value of 1. The average value of the opportunity variable is 0.90, which means that 90% of the LQ-45 company samples use the services of BIG 4 KAP in auditing their financial statements (1) and the remaining 10% of the LQ45 company samples do not use the services of BIG 4 KAP in auditing their financial statements (0). Meanwhile, the opportunity variable has a standard deviation of 0.302.

The rationalization variable, which is proxied by auditor change (CPA), has a minimum value of 0 and a maximum value of 1. This variable has an average value of 0.07, which means that 7% of the sample changed auditors (1) and the remaining 93% of the sample did not change auditors (0). Meanwhile, the standard deviation of the rationalization variable is 0.256.

The capability variable, which is proxied by the change of directors (DCHANGE), has a minimum value of 0 and a maximum value of 1. The average value of the capability

variable is 0.75, which means that 75% of the sample changed directors (1) and the remaining 25% of the sample did not change directors (0). The standard deviation in the capability variable is 0.435.

The financial statement fraud variable measured using the Beneish M-Score has a minimum value of 0 and a maximum value of 1. The average value of this variable is 0.19, which means that 19% of the sample committed financial statement fraud (1) and the remaining 81% of the sample did not commit financial statement fraud (0). Meanwhile, the standard deviation of the financial statement fraud variable is 0.394.

Logistic Regression Analysis Hosmer and Lemeshow's Goodness of Fit Test

Table 3 Results of Hosmer and Lemeshow's Goodness of Fit Test

Hosmer and Lemeshow Test			
Step	Chi-square	df	Sig.
1	8,374	8	.398

Source: SPSS Data Processing Results, 2024

Based on the results of the Hosmer and Lemeshow Goodness of Fit Test, the significance value was 0.398. This value is greater than 0.05 ($0.398 > 0.05$). This indicates that the model is able to predict the observed values because it matches the observed data.

Overall Model Fit Testing

Table 4. Overall Model Fit Test Results

-2 Log Likelihood at start (Block Number = 0)	97,245
-2 Log Likelihood at the end (Block Number = 1)	78,396

Source: SPSS Data Processing Results, 2024

Table 4 shows a comparison between the -2 Log Likelihood at the beginning (Block Number = 0) with the -2 Log Likelihood value at the end (Block Number = 1). The result of the final -2 Log Likelihood is 78.396 which is lower than the initial -2 Log Likelihood of 97.245. This indicates that there is a decrease between the 2 Log Likelihood at the beginning (Block Number = 0) and the -2 Log Likelihood value at the end (Block Number = 1) so that the hypothesized model is stated to fit the data.

Correlation Matrix Testing Between Independent Variables

Table 5. Results of the Correlation Matrix Test Between Independent Variables

Correlation Matrix							
	ACHAN						
	Constant	ROA	GE	LEV	BIG	CPA	DCHANGE
Constant	1,000	-.392	-.279	-.589	-.372	-.015	.058
ROA	-.392	1,000	.138	.415	-.227	.003	-.263
CHANGE	-.279	.138	1,000	.080	-.095	-.159	.010

LEV	-.589	.415	.080	1,000	-.326	-.186	-.644
BIG	-.372	-.227	-.095	-.326	1,000	.174	.274
CPA	-.015	.003	-.159	-.186	.174	1,000	.151
DCHANGE	.058	-.263	.010	-.644	.274	.151	1,000

Source: SPSS Data Processing Results, 2024

Table 5 shows the correlation between the independent variables in the study. The correlation matrix test results show that the correlation coefficients along the diagonal of the table are all equal to 1 because each variable is perfectly correlated with itself. All correlation matrix values are less than 0.8, indicating no strong correlation between the independent variables.

Simultaneous Significance Testing (Omnibus Test)

Table 6. Simultaneous Significance Test Results				
<i>Omnibus Tests of Model Coefficients</i>				
		Chi-square	df	Sig.
Step 1	Step	18,848	6	.004
	Block	18,848	6	.004
	Model	18,848	6	.004

Source: SPSS Data Processing Results, 2024

Based on Table 6, the results of the simultaneous significance test indicate that the omnibus test significance value is 0.004. This significance value is less than 0.05 ($0.004 < 0.05$), so the assumption that the independent variables jointly influence the dependent variable is accepted.

Nagelkerke R2 Test

Table 7. Nagelkerke R2 Test Results			
Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	78.396a	.172	.276
a. Estimation terminated at iteration number 6 because parameter estimates changed by less than .001.			

Source: SPSS Data Processing Results, 2024

Based on the table above, the Nagelkerke R2 value is 0.276. This value indicates that the independent variable has a 27.6% influence on the dependent variable, and 72.4% of the dependent variable is influenced by other variables outside the research model.

Regression Coefficient Test

Table 8. Regression Coefficient Test Results

	B	SE	Wald	Sig.	Exp(B)	Hypothesis
ROA	3,715	3,099	1,437	.231	41,052	H1 No Effect
CHANGE	4,234	2,892	2,144	.143	69,016	H2 No Effect
LEVERAGE	5,321	1,831	8,449	.004	204,649	H3 Influential
BIG	-1,526	.862	3.134	.077	.217	H4 No Effect
CPA	-1,140	1,337	.727	.394	.320	H5 No Effect
DCHANGE	-2,242	.792	8,019	.005	.106	H6 Influential
Constant	-2,314	1,165	3,946	.047	.099	

Source: SPSS Data Processing Results, 2024

From the regression coefficient test, the logistic regression model equation is obtained, namely: $M\text{-SCORE} = -2.314 + 3.715 \text{ ROA} + 4.234 \text{ ACHANGE} + 5.321 \text{ LEV} - 1.526 \text{ BIG} - 1.140 \text{ CPA} - 2.242 \text{ DCHANGE}$

Hypothesis Testing Results

Hypothesis testing is conducted to determine whether the independent variable has an influence on the dependent variable. Based on Table 8, it can be interpreted as follows:

- The Influence of Financial Target on Financial Report Fraud The test results of the financial target variable have a coefficient value of 3.715 with a significance level of 0.231 which is greater than 0.05 ($0.231 > 0.05$). This indicates that the financial target variable does not affect financial report fraud, so the first hypothesis stating that financial targets affect the occurrence of financial report fraud is not supported.
- The Effect of Financial Stability on Financial Report Fraud The financial stability variable has a coefficient value of 4.235 with a significance level of 0.143, which is greater than 0.05 ($0.143 > 0.05$). This indicates that the financial stability variable has no effect on financial report fraud, so the second hypothesis stating that financial stability has an effect on financial report fraud is not supported.
- The Effect of External Pressure on Financial Report Fraud The external pressure variable has a regression coefficient value of 5.321 with a significance level of 0.004, which is smaller than 0.05 ($0.004 < 0.05$). This indicates that the external pressure variable has an effect on financial report fraud, so the third hypothesis stating that external pressure has an effect on the occurrence of financial report fraud is supported.
- The Effect of Opportunity on Financial Report Fraud The opportunity variable has a regression coefficient value of -1.526 with a significance level of 0.077, which is greater than 0.05 ($0.077 > 0.05$). This indicates that the opportunity variable has no effect on financial report fraud, so the fourth hypothesis stating that opportunity has an effect on the occurrence of financial report fraud is not supported.
- The Effect of Rationalization on Financial Report Fraud The rationalization variable has a coefficient value of -1.140 with a significance level of 0.394, which is greater than 0.05 ($0.394 > 0.05$). This indicates that the rationalization variable has no effect on financial report fraud, so the fifth hypothesis stating that rationalization has an effect on financial report fraud is not supported.

The Effect of Capability on Financial Report Fraud The capability variable has a regression coefficient value of -2.242 with a significance level of 0.005, which is smaller

than 0.05 ($0.005 < 0.05$). This indicates that the capability variable has an effect on financial report fraud, so the sixth hypothesis stating that capability has an effect on the occurrence of financial report fraud is supported

CONCLUSION

This study aims to examine the influence of factors categorized under Pressure (including Financial Target, Financial Stability, and External Pressure), Opportunity (External Auditor Quality), Rationalization (Auditor Change), and Capability (Director Change) on financial reporting fraud in LQ-45 companies listed on the Indonesia Stock Exchange during the period of 2018 to 2022. Based on the results, several important findings were obtained. First, the financial target variable, measured by Return on Assets (ROA), does not affect the potential for financial reporting fraud; thus, the first hypothesis is rejected. Second, the financial stability variable, measured by asset change (ACHANGE), also shows no effect, leading to the rejection of the second hypothesis. Third, the external pressure variable, measured by leverage, significantly influences the potential for financial reporting fraud; therefore, the third hypothesis is accepted. Fourth, the opportunity variable, assessed through external auditor quality, does not influence the potential for fraud, resulting in the rejection of the fourth hypothesis. Fifth, the rationalization variable, represented by auditor change (CPA), does not have a significant effect, so the fifth hypothesis is rejected. Lastly, the capability variable, indicated by director change (DCHANGE), is found to significantly influence the potential for financial reporting fraud, thereby supporting the sixth hypothesis. These findings suggest that, among the six variables tested, only external pressure and capability have a significant impact on the potential occurrence of financial reporting fraud in LQ-45 companies during the research period.

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