InCAF PROCEEDING OF INTERNATIONAL CONFERENCE ON ACCOUNTING AND FINANCE

Volume 3, 2025, PP: 1-14

The relationship between fraud triangle and financial reporting fraud: the role of family ownership as moderating

Lia Nilawati[1*], Provita Wijayanti[2]

[1]Department of Accounting, Sultan Agung Islamic University, Semarang
[2]Faculty of Business and Economics, Sultan Agung Islamic University, Semarang
[*]Corresponding Email addresses: lianilawati98@gmail.com

Abstract

This research identifies the effect of the elements of the fraud triangle (financial targets, auditor changes, and effectiveness of supervision) which affect the occurrence of fraud on Financial Statement fraud with Family Ownership as a moderating variable. The population in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2021 period. The sample was selected using a purposive sampling technique and a final sample of 295 was obtained. The data used was secondary or quantitative data with an explanatory design and analyzed using the Partial Least Square (PLS) Structural Equation Modeling (SEM) method with the SmartPLS 3.2.9 operating system. The results of the study show that financial targets have a positive and significant effect on Financial Statement fraud, auditor changes do not have a significant effect on Financial Statement fraud, supervision effectiveness has a negative and significant effect on Financial Statement fraud. Family Ownership is only able to strengthen the influence of the effectiveness of supervision on Financial Statement fraud.

Keywords: Fraud, financial statement fraud, fraud triangle, family ownership

INTRODUCTION

Fraudulent activity as a major challenge for business organizations or governments that are currently being faced. Due to the increasing number of reported fraud cases and their negative impact on business continuity, fraud- related issues continue to be a concern for researchers around the world. One form of fraud that often occurs as explained by the Association of Certified Fraud Examiners (ACFE) is financial statement fraud regarding deliberate misrepresentation of the company's financial condition through deliberate misrepresentation or elimination of disclosure amounts to deceive users of financial statements.

Manufacturing companies are one of those that experienced an increase in the percentage of cases when reviewed from the 2016 report by 3.5% to 4.2% in the 2019 report. The manufacturing sector is often one of the most vulnerable sectors to the risk of fraud, one of the most common frauds is inventory fraud (Deloitte, 2021). This can affect the records in the company's report. Manufacturing is a source of quite large income and has a long business process, which has implications for the rampant cases of fraud (Suparmini et al., 2020).

In previous studies it was explained that high pressure in the company will have an impact on Financial Statement fraud (Ratmono et al., 2020), with the pressure in the form of targets set by management the higher the level of financial statement fraud will be. However, previous studies have found a negative effect of pressure on Financial Statement fraud (Khamainy et al., 2021), this may be because the targets given by the company are used for the short term and most of the company's short-term goals are often unable to generate profits for the company as a whole so that no matter how big the target or pressure given will not motivate management to manipulate financial statements.

As in this study the influence of fraud triangle (financial target, supervision effectiveness, auditor change) on Financial Statement fraud, the influence of fraud triangle (financial target, supervision effectiveness, auditor change) in detecting financial statement fraud can be strengthened or weakened by the Family Ownership variable. Family Ownership is the third variable or moderating variable.

Family Ownership is a company ownership controlled by people who have family ties (Bansal 2021). Beuren, (2015) explains that the provisions of a company that has family ownership are formed if there is a family member who is a CEO or a member of the board of directors of a company. In this case, with the existence of Family Ownership where family members serve as the board of directors, they can exercise control and supervision over management and participate in company decision-making because the board of directors who are also family members have large shares in the company, therefore they will make decisions that can benefit the company and stakeholders and for the sustainability of the company.

In Indonesia itself, there are several successful family companies that have become large companies with an open stock system and are long-lived, one of which is PT Indofood Sukses Makmur. In his business journey, Soedono Salim owned many large companies. However, several companies had to be sold in order to maintain his two large companies, Indofood and Bogasari. Currently, the owner of PT Indofood Sukses Makmur is Anthony Salim, son of Soedono Salim (https://liputan6.com). Family ownership was chosen as a moderating variable because in Indonesia there are many companies owned by families and their shares have been published on the stock exchange. The use of moderating variables is because there are other variables that are suspected of influencing the relationship between the fraud triangle (financial targets, effectiveness of supervision, change of auditors) and financial statement fraud, such as research by Kumala & Siregar, (2021) which explains that Family Ownership can weaken Financial Statement fraud through the relationship between variables.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review

Agency Theory

Agency theory explains the agency relationship that regulates the contract of a party called the principal (shareholder), the principal gives orders to another party called the agent (management) to carry out the company's operational activities on behalf of the principal and hands over authority to the agent to make the right and best decisions (Jensen, 1976). Agency problems can occur if there is a conflict of interest between the two parties, and shareholders cannot fully assess whether the behavior and actions of management are in accordance with ethical standards or not. On the one hand, shareholders are interested in getting a large return on their investment but on the other hand, management is also interested in getting a high commission for their own interests.

Fraud Triangle Theory

One concept to understand fraudulent behavior is the fraud triangle theory from Donald Ray Cressey in 1953. There are 3 things that may happen in every fraud case according to Cressey. First, the perpetrator has the opportunity to commit fraud. Second, financial pressure that cannot be shared. Third, the rationalization of fraud committed by the perpetrator using the perpetrator's code of ethics.

Hypothesis Development

Relationship between Financial Targets and Financial Statement Fraud

Agency theory explains the agency that arises due to different interests between shareholders and management, which can encourage management to act opportunistically. The difference in interests in question is that management wants a bonus for its hard work while shareholders want the company to earn high profits that exceed the targeted profits, because if the profits are high, investors will also get high returns. The existence of financial targets causes management to try to present the company's performance in good condition with financial targets that are higher than last year's financial targets. Management does not want to be sanctioned if the company's finances look worse and wants to get a bonus, it can manipulate financial data as if management has been able to achieve targets and manage the company well.

Based on agency theory, financial pressure is found to be a factor that influences fraud. The results of research by Ratmono et al., (2020), Harman & Bernawati, (2021), Indarto & Ghozali, (2016), and Devi et al., (2021) that financial targets for managers can increase the occurrence of financial statement fraud, as a result, the greater the financial target, the stronger the intensity of someone lying and in this case the behavior of financial statement fraud. The formulation of the hypothesis is:
H1. Financial Targets have a positive effect on Financial Statement Fraud

Relationship between Auditor Change and Financial Statement Fraud

Auditor changes are an effort to rationalize the company as a form of eliminating traces of fraud or reducing the detection of financial reporting fraud Ratmono et al., (2020). This situation motivates companies to change their auditors to cover up fraud in the company. The high frequency of auditor changes in the year in question proves a high risk of fraud. In accordance with agency theory and basic human nature, auditor changes have been found to be a factor that influences the occurrence of fraudulent acts. The results of research by Noble, (2019) and Devi et al., (2021) show that auditor changes in a company can increase the occurrence of financial reporting fraud, so that the higher the change of independent auditors, the greater the intensity of the company to carry out deviant behavior and in this case fraudulent financial reporting behavior. The formulation of the hypothesis is:
H2. Auditor changes have a positive effect on Financial Statement fraud

The Relationship between Supervision Effectiveness and Financial Statement Fraud

Supervision is a way that companies can do to minimize the occurrence of fraud (Khamainy et al., 2021). Fraud usually occurs in companies with weak internal control systems, this situation provides an opportunity to commit fraudulent acts, this is usually done by people inside the company because they know the gaps in the company. This is in accordance with the agency theory that there is information asymmetry in the company, there are 2 types of information asymmetry, one of which is moral hazard. Moral hazard occurs when a party does something that is not yet known to the other party. Therefore, efforts to prevent corporate fraud must create effective supervision, in this case the supervisor is an independent board of commissioners because basically the board of commissioners must be neutral and have no interests whatsoever.

In addition to using internal supervision, external supervision is also needed, namely from external auditors who have a good reputation, one of which is an auditor from KAP BIG 4, here supervision is carried out through the quality of the audit of the financial statements issued by the auditor. In the supervision and quality of financial statements in order to minimize the occurrence of fraud, supervision from the audit committee is needed because the audit committee is tasked with overseeing the effectiveness of controls, the entity's accounting system, and is responsible for public disclosure of financial statements. Therefore, the effectiveness of supervision is proxied by the ratio of independent board of commissioners, external auditor dummy from BIG 4 KAP, and the ratio of Audit Committee members. Research by Fitri et al., (2019), Tiffani & Marfuah, (2015), Alvionika & Meiranto, (2021), and Ozcelik, (2020) shows that fraud usually occurs in companies with fewer independent board of commissioners, audit committee members and companies with non-BIG 4 KAP auditors. The formulation of the hypothesis is:
H3. Effectiveness of Supervision has a negative effect on Financial Statement fraud

Family Ownership Weakens the Influence of Financial Targets on Financial Statement Fraud

Based on the agency theory explained by Jensen, (1976) about the agency relationship that regulates the principal (shareholder) contract with the agent (management), where the principal authorizes the agent to manage the company's operations and make the best decisions. In this case, there is a problem that can arise between the two parties, namely a conflict of interest, where the principal wants to get a lot of profit from the funds that have been given to the company to be managed by management by providing higher financial targets than the previous year. With Family Ownership, agency conflicts can be overcome because Family Ownership is a family member who works as a board of directors who has the authority to control and supervise the company's operations so that each family member has a sense of desire and responsibility to protect and maintain the company's image to avoid agency conflicts and fraudulent financial reports that can harm the company. The formulation of the hypothesis from the description above is:

H4. Family Ownership weakens the positive influence of financial targets on Financial Statement fraud.

Family Ownership Weakens the Effect of Auditor Change on Financial Statement Fraud

Based on Eisenhardt's agency theory (1989), one of the basic human traits is risk averse, where management does not want to take more risks than internal auditors who already know that there are indications of fraud in the company. Instead of correcting errors according to the advice given by the internal auditor, the company prefers to replace the internal auditor with another auditor in order to cover up the fraud in the company.

With the existence of Family Ownership or family members who become board of directors can participate in the risk-taking process in the company, the principal who is also a family member who serves as a board of directors can make an efficient contract to management that there is no limit to management's ability to communicate its information, with the condition that the principal must be able to commit that the truth will not be used against management, instead between the principal and management find a way to solve the problem together and not immediately fire or blame the management. Thus Family Ownership can weaken the influence of the relationship between auditor changes on Financial Statement fraud.

H5. Family Ownership weakens the positive effect of auditor change on Financial Statement fraud.

Family Ownership Strengthens the Influence of Supervision Effectiveness on Financial Statement Fraud

If the company does not have good supervision and internal control, fraud can easily be committed, because the perpetrators believe that weak internal control cannot catch them (Fitri et al., 2019). With effective supervision from within and outside the company, namely supervision from independent commissioners and supervision from outside, namely external auditors, which is seen from the public accounting firm where the auditor works because it includes the integrity of the KAP if the auditor is found not to be independent and committing fraud and from the quality of financial reports that are directly supervised by the audit committee and ensure the accounting reporting system and the risks that can occur in the financial statements and with family members serving as members of the board of directors can help effective supervision for the running of the company to avoid fraud.

In accordance with the alignment effect theory where the family becomes the controlling shareholder will use the control rights they have to develop supervision of the managers so as to reduce their opportunistic nature (Zhang et al., 2022). Therefore, it is hoped that with effective supervision and supported by Family Ownership, it can minimize the occurrence of fraud in the company. Thus, Family Ownership can strengthen the influence of the relationship between the effectiveness of supervision and Financial Statement fraud. The hypothesis formulation from the description above is:

H6. Family Ownership strengthens the negative influence of supervision effectiveness on Financial Statement fraud.

METHODS

This research uses explanatory research type with a quantitative approach. This type of research aims to test a hypothesis in order to strengthen or even reject the hypothesis from the research results. This study uses a moderation relationship type that explains the relationship between independent variables (Financial Target, Auditor Change, and Supervisory Effectiveness) and dependent variables (Financial Statement fraud) with moderating variables (Family Ownership). The population in this study were manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2021 period. The sample was selected using purposive sampling technique and the final sample was 295. The use of descriptive statistical techniques with Smart.PLS.3.2.9 software is expected to provide appropriate and optimal findings.

Financial Statement fraud

The calculation uses the M-score model first proposed by Beneish, (1999). M-score is a combination of 8 different indexes, the measurement of ratio changes is calculated each from year to year. The 8 indexes are (1) DSRI, is the ratio used to calculate daily sales in receivables from the previous year to the current year. (2) GMI, is the ratio used to calculate gross margin from the current year to the previous year, if the index is less than 1, it means that the gross margin has decreased. (3) AQI, is the ratio between the quality of assets from the previous year and the quality of assets from the current year, if the AQI is greater than 1, it means that the company has the opportunity to develop cost deferrals. (4) SGI, is the ratio of sales from the current year to the previous year. (5) DEPI, is the ratio between the depreciation rate in the current year and the previous year. (6) SGAI, is the ratio of selling, general, and administrative costs from the current year compared to the previous year. (7) LVGI, which is the ratio of the amount of debt to total assets in the current year compared to the previous year, if the result is more than 1, it means the company has increased its leverage. (8) TATA, is the total accrual calculated as changes in working capital accounts other than cash minus depreciation. Therefore, the measurement of the eight ratios above is formulated as follows:

$$M = -4.84 + 0.920DSRI + 0.528GMI + 0.404AQI + 0.892SGI + 0.115DEPI - 0.172SGAI + 4.679ACRUAL - 0.327LEVI$$

If the calculation result of the formula using Beneish M-Score is more than -1.78, then it is classified as a company manipulator. If the calculation with Beneish M-Score is less than -1.78, then it is classified as a non-manipulator company. From the formula above, the conclusion is that Companies that have an M-score value of more than -1.78 are given the code 1 (one), and companies with an M-score of less than -1.78 are given the code 0 (zero).

Financial Targets

This study refers to the research of Ratmono et al., (2020), Indarto & Ghozali, (2016), Devi et al., (2021), Handoko & Natasya, (2019), and Ozcelik, (2020) through financial targets with Return on Assets (ROA). ROA is usually used as a benchmark to assess the results of a company's operational work and the efficiency of assets that have been used to generate profits. ROA is calculated by dividing net profit after tax by total assets.

Change of Auditor

The high frequency of auditor turnover in the year in question indicates a high risk of fraud as well. This study proxies auditor turnover through voluntary changes in Public Accounting Firms (KAP), namely changes made not because of mandatory regulations, but voluntarily at the will of management which is calculated using a dummy variable, if there is a change in the Public Accounting Firm for the 2018-2021 period, code 1 is given, but if there is no change, code 0 will be given.

Effectiveness of Supervision

Supervision is a method that can be used by companies to minimize the occurrence of fraud (Khamainy et al., 2021). The effectiveness of supervision is measured by the Independence of Commissioners with the formula of the number of independent commissioners divided by the total number of board of commissioners, the Audit Committee with the formula of the number of independent audit committee members divided by the total number of audit committee members, BIG 4 Public Accounting Firms are measured by dummy Companies affiliated with Big 4 Public Accounting Firms are given code 1 (one) and unaffiliated companies are given code 0 (zero).

Family Ownership

According to Bao & Lewellyn, (2017) there are two characteristics of companies that are included in the category of family companies, namely the first is 5% individual ownership or more of the number of shares available, and the second is if the family is the controlling shareholder or has at least 20% voting rights and the highest shareholder compared to other shareholders. If one of the above characteristics exists in the company, the company is included in the family company. Family Ownership is measured by a dummy that companies that have family ownership in the annual report are given code 1, and companies that do not have family ownership are given code 0.

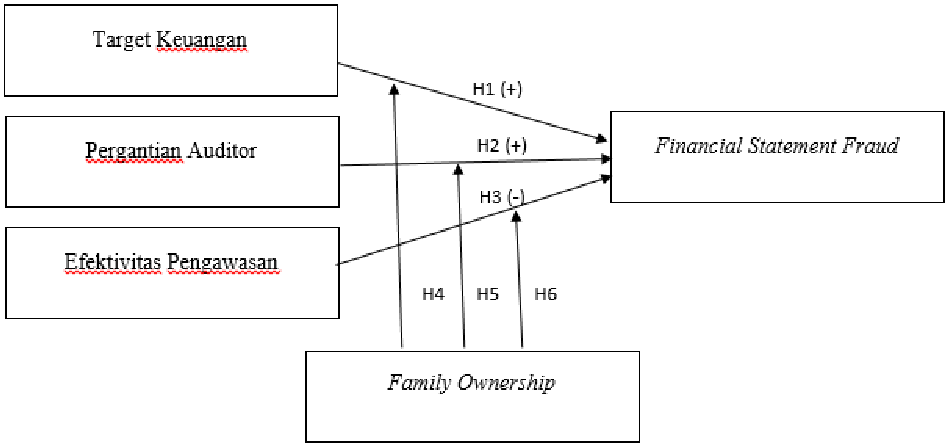

Figure 1. Theoretical Framework

RESULT AND DISCUSSION

Measurement Model (Outer Weight)

Outer weight is the result of multiple regression of a construct on its series of indicators. The latent variable indicator is said to be significant on its construct variable if it has a p value score of less than 0.05 and T-Statistics more than 1.96. The results of the outer weight test using SmartPLS 3.2.9 data processing are shown in the table below, as follows:

Table 1. Outer Weight Test Results of Formative Indicators of Supervision Effectiveness Indicators

	Origin Sample (O)	*T-Statistics*	*P Values*
Big 4 KAP → Supervision Effectiveness	0.885	7,005	0,000
KOMAUD → Supervision Effectiveness	0.641	3,293	0.001
KOMIND → Supervision Effectiveness	0.872	7,236	0,000

Based on table 1 of the formative construct of supervision effectiveness, there are no indicators that do not significantly influence the construct, the indicators are at a significance level below 5%.

Multicollinearity

Multicollinearity describes a situation that shows a strong correlation or relationship between two or more independent variables in a multiple regression model that is seen from the Variance Inflation

Factor (VIF) score, as a requirement for the validity of formative indicators. If the value obtained is much more than five, then multicollinearity is detected, conversely if the VIF score is much less than five, then multicollinearity is not detected. The results of the multicollinearity test using SmartPLS 3.2.9 data processing are shown in the table below, as follows:

Table 2. Collinearity Statistics (VIF) Test Results

	VIF
Financial Targets	1,000
Effectiveness of Supervision	1,000
Change of Auditor	1,000
Family Ownership	1,000
Financial Target * *Family Ownership*	1,000
Effectiveness of Supervision * *Family Ownership*	1,000
Change of Auditor * *Family Ownership*	1,000

Based on table 2, the results of the PLS-Algorithm on Collinearity Statistics (VIF) show that the financial target variables, effectiveness of supervision, and auditor turnover with Family Ownership as a moderating variable with a VIF value of 1,000 <5 are not affected by multicollinearity.

Path Coefficient Outer Weight

Based on table 3 and figure 2 below, the conclusion of the results of the outer model formative indicator test can be seen that financial targets have an effect on Financial Statement fraud with a coefficient of 0.152 and a significance of 0.000, auditor changes have no effect on Financial Statement fraud with a coefficient of 0.047 and a significance of 0.216, and the effectiveness of supervision has an effect on Financial Statement fraud with a coefficient of -0.207 and a significance of 0.000.

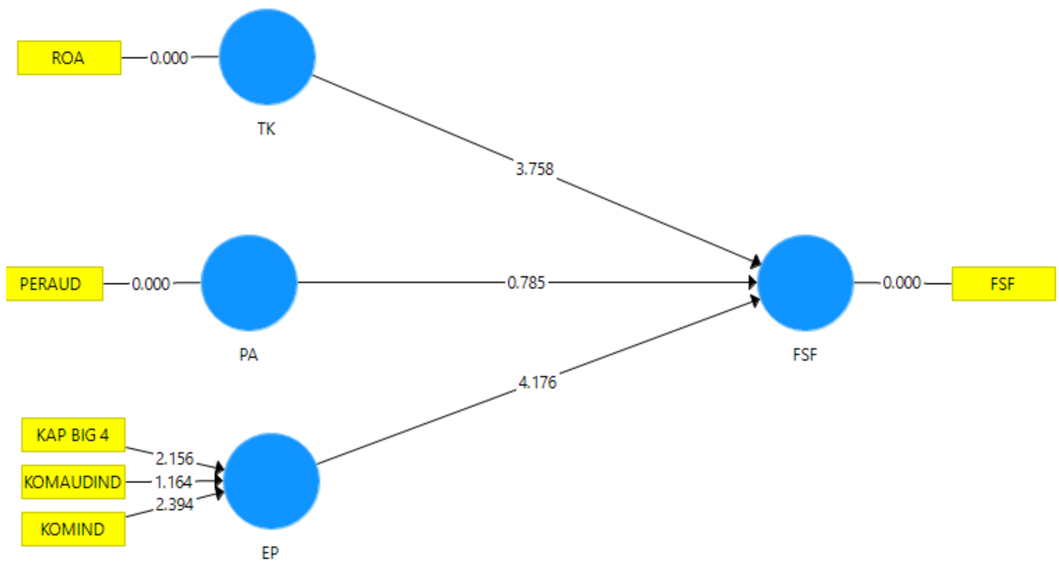

Figure 2. Outer Model Results Formative Indicators

Table 3. Conclusion of Outer Model Formative Indicator Test Results

	Original Sample (O)	**T-Statistics (|O/STDEV|)**	**P Values**
FSF Financial Targets→	0.152	3,758	0,000
FSF Auditor Change→	0.047	0.785	0.216
Effectiveness of →FSF Oversight	-0.207	4,176	0,000

Hypothesis Test Results

Hypothesis testing is conducted to see the relationship between variables in the research model. The hypothesis test of this study uses Structural Equation Modeling (SEM) with SmartPLS 3.2.9 software. The results of the inner model hypothesis test are only seen from the p value with a significance of 5% and there is no validity test even though one of the variables has three indicators. This is because the researcher uses a formative outer model testing strategy whose model evaluation uses significance weight. So, the hypothesis is accepted if the significance value of p is much less than 0.05, conversely if it is more than 0.05 the proposed hypothesis is rejected. In other words, if the calculated t is much less than the t-table (1.96) then it is rejected (Ha) and accepted (H0). The results of the SmartPLS 3.2.9 hypothesis test are as follows:

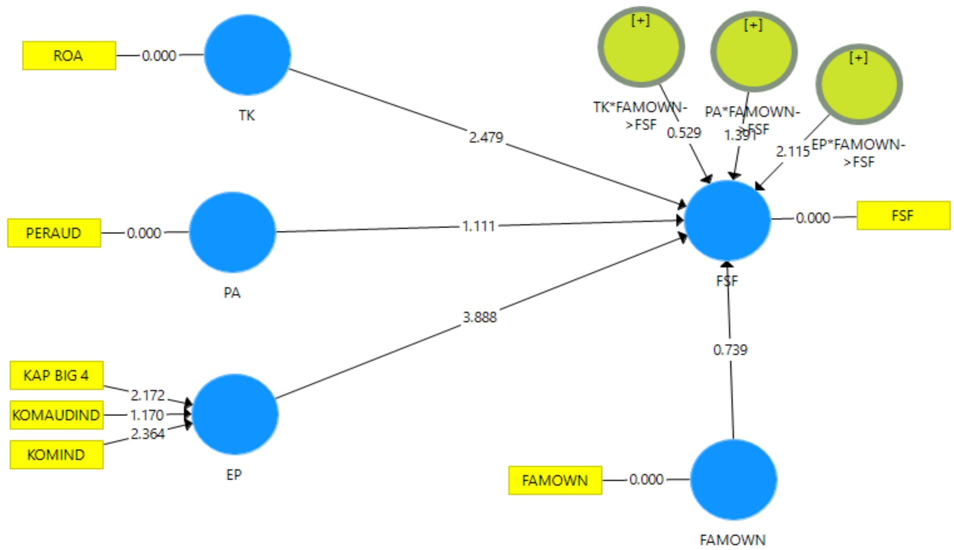

Figure 3. Results of Inner Model Testing of the Influence of Fraud Triangle (Financial Targets, Auditor Change, and Supervisory Effectiveness) on Financial Statement Fraud with Family Ownership as a Moderating Variable

The results of the PLS model testing are divided into two columns, namely directly and indirectly. Both were tested using SmartPLS 3.2.9 which is summarized through the table below, as follows:

Table 6. Conclusion of Inner Model Test Results

		Path Coefficients	*T-Statistic*	*P value*	*Results*
H 1	Financial targets→ *Financial Statement Fraud*	0.152	3,758	0,000	Significant Positive
H 2	Change of Auditor→ *Financial Statement Fraud*	0.047	0.785	0.216	Not Significant
H 3	Effectiveness of Supervision→ *Financial Statement Fraud*	-0.207	4,176	0,000	Significant Negative
H 4	Financial Target* *Family Ownership*→ *Financial Statement Fraud*	-0.045	0.529	0.298	Not Significant
H 5	Change of Auditor* *Family Ownership* → *Financial Statement Fraud*	0.159	1,391	0.082	Not Significant
H 6	Effectiveness of Supervision* *Family Ownership* → *Financial Statement Fraud*	-0.492	2,115	0,000	Significant Negative

The Influence of Financial Targets on Financial Statement Fraud

This is shown in the test of the path coefficient value with a value of 0.152, meaning that there is a positive influence on both variables. With a p value of 0.000 below 0.05, it reflects the significance of both variables and the t value of 3.758 is greater than 1.96.

The findings are in accordance with the agency theory view. The difference in interests referred to here is that shareholders want the company to earn profits that exceed the targeted profits, while management wants to get bonuses for their hard work. With the existence of financial targets that require management to present the company's performance in good condition and meet financial targets. Therefore, Management does not want to get sanctions if the company's finances look worse and wants to get bonuses, so the bigger the financial target, the stronger the intensity of someone lying in this case the behavior of fraudulent financial reporting. Based on the explanation above, this study has supported the opinions of previous studies conducted by Ratmono et al., (2020), Harman & Bernawati, (2021), Indarto & Ghozali, (2016), and Devi et al., (2021).

The Influence of Auditor Change against Financial Statement fraud

This is shown in the path coefficient value with a value of 0.047, meaning that there is a positive relationship to the two variables. With a p value of 0.216 above 0.05, it reflects the absence of significance in the two variables and the t value of 0.785 is smaller than 1.96.

The findings do not reflect the agency theory which explains that one of the basic human traits is bounded rationality where management has limited rationality about future perceptions where management cannot be certain about the future of the company whether the company will survive or go bankrupt, therefore management wants to get as much profit as possible and minimize all risks at this time and tends to commit fraud if there is something that can hinder its goals, one of which is by taking rational action by changing auditors if there is something unreasonable.

However, in this case, the change of auditors by the company may not affect financial statement fraud because external auditors rarely reveal the condition of financial statement fraud. The main function of the general audit is only to assess the fairness of the financial statements, if the financial statements are in accordance with applicable standards, it is sufficient to provide a fair opinion on the audit report. The change of auditors carried out by manufacturing companies in this study was mostly carried out in accordance with Financial Services Authority Regulation Number 13/POJK.03/2017, where this can indicate that the change of auditors is only a formality of the implementation of applicable regulations. This can indicate that the change of auditor services will not be carried out to cover up a fraud. Based on the explanation above, this study has supported the opinion of previous research conducted by Ratmono et al., (2020).

The Influence of Supervision Effectiveness on Financial Statement Fraud

This is shown in the path coefficient value with a value of -0.207, meaning that there is a negative influence on both variables. With a p value of 0.000 below 0.05, it reflects the significance of both variables and the t value of 4.176 is greater than 1.96.

In accordance with agency theory, if a company has good internal supervision and control, it is not easy to commit fraud. Based on the explanation above, the results of this study are in line with the opinions of Fitri et al., (2019), Tiffani & Marfuah, (2015), Alvionika & Meiranto, (2021), and Ozcelik, (2020) which state that the effectiveness of supervision has a negative and significant effect on Financial Statement fraud. The greater the proportion of independent commissioners, the more effective the supervision process will be, thereby reducing the potential for management to commit Financial Statement fraud. In this study, the average number of independent commissioners was 49% so that independent commissioners were considered to be able to work effectively and optimally in supervising management performance which could reduce the potential for management to commit Financial Statement fraud.

Effective supervision is not only carried out by independent commissioners who are neutral and do not have any deviant interests in the company, supervision can also be carried out by the audit committee. The audit committee can carry out its duties well, namely as an intermediary unit that provides communication between the board of directors and internal audit. In the internal control process, the audit committee plays a role in evaluating the adequacy of the system and providing an understanding of the risks that affect the quality of financial statements. An effective audit process can prevent fraudulent financial reporting. An audit committee consisting of independent members of the board of directors increases the effectiveness of the audit and minimizes the occurrence of fraudulent financial statements.

In addition to using internal supervision, external supervision is also needed, namely from external auditors who have a good reputation, one of which is an auditor from a big 4 KAP. External auditors who come from big 4 KAP can reduce the level of fraud because they tend to find fraud better and are independent because it concerns the integrity of their KAP (Ozcelik, 2020). Thus, companies that have effective supervision from both internal and external parties can reduce the occurrence of Financial Statement fraud.

Family Ownership weakens the influence of financial targets on Financial Statement fraud

This is shown in the results of the path coefficient value with a value of -0.045, meaning that there is a negative influence on both variables. With a p value of 0.298 above 0.05, it reflects the absence of significance in both variables and the calculated t value of 0.529 is smaller than 1.96. The regression coefficient value of financial targets on Financial Statement fraud is 0.152 and after the moderation test of financial targets * Family Ownership Financial Statement fraud has a coefficient value of -0.045, there is a decrease in the regression coefficient value which means that Family Ownership cannot weaken the influence of financial targets on Financial Statement fraud. This means that in this study, the fourth hypothesis is rejected.

This is because there are problems that can arise between the two parties, namely a conflict of interest, where the principal wants to get a lot of profit from the funds that have been given to the company to be managed by management by providing higher financial targets than the previous year. The higher the financial target targeted by the company to management, the higher the opportunity for management to commit fraud. Here management will do everything possible to be able to meet the financial targets targeted by the company, where the higher the target given by the company, the higher the intensity of management to commit fraud.

Although the company has provided efficient contracts and placed a board of directors who are also Family Owners in each division to supervise and control the running of the company, management prefers to use deviant methods because if they make financial reports that are as they are and honest, the company could lose money and they would not get bonuses for their hard work. Thus, Family Ownership has not been able to weaken the relationship between financial targets and Financial Statement fraud. The results of this study are in accordance with research conducted by Ramírez-Orellana et al., (2019).

Family Ownership Weakens the Effect of Auditor Change on Financial Statement Fraud

This is shown in the results of the path coefficient value with a value of 0.159, meaning that there is a positive influence on both variables. With a p value of 0.082 above 0.05, it reflects the absence of significance in both variables and the calculated t value of 1.391 is smaller than 1.96. The regression coefficient value of auditor turnover on Financial Statement fraud is 0.047 and after the moderation test of auditor turnover* Family Ownership Financial Statement fraud has a coefficient value of 0.159, there is an increase in the regression coefficient value but the significance value is more than 0.05, which means that Family Ownership cannot weaken the influence of auditor changes on Financial Statement fraud.

This means that in this study, the fifth hypothesis is rejected. Although prevention has been carried out such as placing board members who are also Family Ownership who can participate in the risk-taking process in the company, this is not done by management because they have a risk adverse nature so that management prefers to change auditors to cover up the fraud they are committing and are afraid of being caught which can have fatal consequences for their careers in the company. Thus, Family Ownership has not been able to weaken the relationship between auditor changes and

Financial Statement fraud. This study supports research conducted by Rahman et al., (2023) and Melati et al., (2020).

Family Ownership strengthens the influence of supervision effectiveness on Financial Statement fraud

This is shown in the results of the path coefficient value with a value of -0.492, meaning that there is a negative influence on both variables. With a p value of 0.000 below 0.05, it reflects the significance of both variables and the t value of 2.115 is greater than 1.96. The regression coefficient value of the effectiveness of supervision on Financial Statement fraud is -0.207 and after the moderation test of the effectiveness of supervision* Family Ownership Financial Statement fraud has a coefficient value of -0.492, there is an increase in the regression coefficient value which means that Family Ownership can strengthen the influence of the effectiveness of supervision on Financial Statement fraud. This means that in this study, the sixth hypothesis is accepted.

This means that supervision carried out by independent commissioners is able to reduce the occurrence of fraud in the company, because the independent board of commissioners is neutral and has no interests whatsoever. As well as from the quality of financial reports that are directly supervised by the audit committee and supervision from external parties, namely from the quality of audits audited by external parties where auditors carry out their duties to audit financial reports with standard auditing guidelines and relevant public accountant codes of ethics.

Having family members serving as members of the board of directors can help provide effective supervision for the running of the company to avoid fraud. In accordance with the alignment effect theory, where the family who is the controlling shareholder will use their control rights to develop supervision of the manager, thereby reducing their opportunistic nature Zhang et al., (2022). This is done because the family wants to maintain its reputation and pass on its business to the next generation. Thus, Family Ownership strengthens the relationship between the effectiveness of supervision and Financial Statement fraud. This study supports research conducted by Wan Mohammad & Wasiuzzaman, (2019), Bansal, (2021), and Natsir & Badera, (2020).

CONCLUSION

The research sample was taken from manufacturing companies listed on the IDX in 2018 to 2021 using purposive sampling technique. Based on the logistic regression analysis that has been carried out on 295 observation data. The results of this study indicate that financial targets have a significant effect on Financial Statement fraud so that the first hypothesis is accepted. Auditor Change has a significant effect on Financial Statement fraud. Effectiveness of Supervision has a significant effect on Financial Statement fraud. Family Ownership has not been able to weaken the relationship between financial targets and Financial Statement fraud. Family Ownership has not been able to weaken the relationship between auditor changes and Financial Statement fraud. Family Ownership is able to strengthen the relationship between the effectiveness of supervision and Financial Statement fraud.

Future researchers, if they use the M-score model, can add research samples by using all sectors of companies listed on the IDX, both in Indonesia and in other countries, and add a longer research period to obtain more significant results. Based on the ACFE report (2020), private companies are the institutions that are most harmed by fraud or are the number one institution with the highest fraud cases. Further researchers can conduct research on these institutions with other measurements that are in accordance with the characteristics of the company.

REFERENCES

Abdullahi, R., & Mansor, N. (2015). Fraud Triangle Theory and Fraud Diamond Theory: Understanding the Convergent and Divergent for Future Research. International Journal of Academic Research in Accounting, Finance and Management Sciences, 5(4), 38–45. https://doi.org/10.6007/IJARAFMS/v5-i4/1823

Alvionika, P., & Meiranto, W. (2021). Analysis of Financial Reporting Fraud Based on Fraud Diamond Theory: Empirical Study of Banking Companies Listed on the IDX in 2021. Diponegoro Journal of Accounting, 10(4), 1–12.

Association of Certified Fraud Examiners (ACFE). (2020). Report to the Nations: 2018 Global Study on Occupational Fraud and Abuse.

Aviantara, R. (2019). The BIG 4 Role in Moderating the Detection of Fraud Pentagon Against Fraudulent Financial Reports. International Journal of Sciences: Basic and Applied Research, 48(4), 94–107.

Aviantara, R. (2021). The Association Between Fraud Hexagon and Government's Fraudulent Financial Report. Asia Pacific Fraud Journal, 6(1), 26. https://doi.org/10.21532/apfjournal.v6i1.192

Baek, H. Y., Cho, D. D., & Fazio, P. L. (2016). Family Ownership, Control and Corporate Capital Structure: An Examination of Small Capitalization Public Firms. Journal of Family Business Management, 6(2), 169–185. https://doi.org/10.1108/JFBM-02-2015-0006

Bansal, M. (2021). Board Independence and Earnings Management: Influence of Family Business Generation. Journal of Asian Business Studies, 15(5), 748–768. https://doi.org/10.1108/JABS-07-2020-0280

Beneish, M. D. (1999). The Detection of Earnings Manipulation. Financial Analysts Journal, 55(5), 24–36. https://doi.org/10.2469/faj.v55.n5.2296

Beuren, et al. (2015). The Effect of Family Ownership on Financial Performance. Emerald Publishing Limited, 01(11), 16–30.

Cheng, Q. (2014). Family Firm Research: A Review. China Journal of Accounting Research, 7(3), 149–163. https://doi.org/10.1016/j.cjar.2014.03.002

Deloitte. (2021). Decoding Frauds in the Manufacturing Sector. https://www2.deloitte.com/sk/en/pages/forensic/articles/decoding-frauds-in-the-manufacturing-sector.html

Devi, Widanaputra, Budiasih, & Rasmini. (2021). The Effect of Fraud Pentagon Theory on Financial Statements: Empirical Evidence From Indonesia. Journal of Asian Finance, Economics and Business, 8(3), 1163–1169. https://doi.org/10.13106/jafeb.2021.vol8.no3.1163

Dong, N., Wang, F., Zhang, J., & Zhou, J. (2020). Ownership Structure and Real Earnings Management: Evidence From China. Journal of Accounting and Public Policy, 39(3), 106733. https://doi.org/10.1016/j.jaccpubpol.2020.106733

Dorminey, J., Fleming, A. S., Kranacher, M.-J., & Riley, R. A. (2012). The Evolution of Fraud Theory. Issues in Accounting Education, 27(2), 555–579. https://doi.org/10.2308/iace-50131

Cressey, D. R. (1953). Other People's Money: A Study in the Social Psychology of Embezzlement. The Journal of Criminal Law, Criminology, and Police Science, 45(4), 464–465.

Eisenhardt, K. M. (1989). Agency Theory: An Assessment and Review. Academy of Management Review, 19(1), 57–74.

Handoko, B. L., & Natasya. (2019). Fraud Diamond Model for Fraudulent Financial Statement Detection. International Journal of Recent Technology and Engineering, 8(3), 6865–6872. https://doi.org/10.35940/ijrte.C5838.098319

Imtikhani, L., & Sukirman, S. (2021). Determinants of Fraudulent Financial Statements Through the Perspective of Fraud Hexagon Theory in Mining Companies. Journal of Business Accounting, 19(1), 96. https://doi.org/10.24167/jab.v19i1.3654

Indarto, S. L., & Ghozali, I. (2016). Fraud Diamond: Detection Analysis on the Fraudulent Financial Reporting. Risk Governance and Control: Financial Markets and Institutions, 6(4Continued1), 116–123. https://doi.org/10.22495/rcgv6i4c1art1

Jensen, M. C. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure.

Khamainy, A. H., Ali, M., & Setiawan, M. A. (2021). Detecting Financial Statement Fraud Through New Fraud Diamond Model: The Case of Indonesia. Journal of Financial Crime. https://doi.org/10.1108/JFC-06-2021-0118

Md Nasir, N. A., & Hashim, H. A. (2021). Corporate Governance Performance and Financial Statement Fraud: Evidence From Malaysia. Journal of Financial Crime, 28(3), 797–809. https://doi.org/10.1108/JFC-09-2020-0182

Melati, D. P. A., Kirana, D. J., & Lastiningsih, N. (2020). Determination of Detection of Financial Report Fraud With Diamond Fraud and Family Ownership as Moderating Variables. Ubhara Scientific Journal of Management, 2(2), 14.

Nurcahyono, N., Hanum, A. N., Kristiana, I., & Pamungkas, I. D. (2021). Predicting Fraud Effective Financial Statement Risk: The Testing Dechow F-Score Financial Sector Company in Indonesia. Universal Journal of Accounting and Finance, 9(6), 1487–1494.

Omukaga, K. O. (2021). Is the Fraud Diamond Perspective Valid in Kenya? Journal of Financial Crime, 28(3), 810–840. https://doi.org/10.1108/JFC-11-2019-0141

Ozcelik, H. (2020). An Analysis of Fraudulent Financial Reporting Using the Fraud Diamond Theory Perspective: An Empirical Study on the Manufacturing Sector Companies Listed on the Borsa Istanbul. In S. Grima, E. Boztepe, & P. J. Baldacchino (Eds.), Contemporary Studies in Economic and Financial Analysis (pp. 131–153). Emerald Publishing Limited. https://doi.org/10.1108/S1569-375920200000102012

Ratmono, D., Darsono, D., & Cahyonowati, N. (2020). Financial Statement Fraud Detection With Beneish M-Score and Dechow F-Score Model: An Empirical Analysis of Fraud Pentagon Theory in Indonesia. International Journal of Financial Research, 11(6), 154. https://doi.org/10.5430/ijfr.v11n6p154

Suparmini, N. K., Ariyanto, D., & Andika Pradnyana Wistawan, I. M. (2020). Testing of Diamond Theory Fraud on Indications of Financial Statement Fraud in Indonesia. E-Journal of Accounting, 30(6), 1441. https://doi.org/10.24843/EJA.2020.v30.i06.p08

Tiffani, L., & Marfuah, M. (2015). Detection of Financial Statement Fraud With Fraud Triangle Analysis in Manufacturing Companies Listed on the Indonesia Stock Exchange. Indonesian Journal of Accounting & Auditing, 19(2), 112–125. https://doi.org/10.20885/jaai.vol19.iss2.art3

Umar, H., Partahi, D., & Purba, R. B. (2020). Fraud Diamond Analysis in Detecting Fraudulent Financial Report. International Journal of Financial Research, 9(3), 9.

Wan Mohammad, W. M., & Wasiuzzaman, S. (2019). Effect of Audit Committee Independence, Board Ethnicity and Family Ownership on Earnings Management in Malaysia. Journal of Accounting in Emerging Economies, 10(1), 74–99. https://doi.org/10.1108/JAEE-01-2019-0001

Yusrianti, H., Ghozali, I., Yuyetta, E., Aryanto, A., & Meirawati, E. (2020). Financial Statement Fraud Risk Factors of Fraud Triangle: Evidence From Indonesia. International Journal of Financial Research, 11(4), 36. https://doi.org/10.5430/ijfr.v11n4p36

Zhang, Y., Hu, A., Wang, J., & Zhang, Y. (2022). Detection of Fraudulent Statements Based on Word Vector: Evidence From Financial Companies in China. Finance Research Letters, 46, 102477. https://doi.org/10.1016/j.frl.2021.102477