

FRAUDULENT FINANCIAL REPORTING ON PROPERTY, REAL ESTATE, AND BUILDING CONSTRUCTION COMPANIES

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ABSTRACT

The purpose of this research to detect fraudulent financial reporting in the property, real estate, and building construction sectors listed on the IDX based on the perspective of the fraud pentagon theory. The data collection technique used purposive sampling and data analysis using logistic regression. The results indicate that that external pressure factors, ineffective monitoring, quality of external auditors, auditor turnover, rationalization proxied by auditor opinion, change of directors, and political connections affected FFR. Meanwhile, financial target factors, financial stability, institutional ownership, and the frequency of the appearance of the CEO image in the annual report do not affect FFR.

Keywords: Pentagon Theory; Fraudulent Financial Reporting; Corporate Governance; Sustainability

ABSTRAK

Penelitian ini bertujuan untuk mendeteksi kecurangan pelaporan keuangan pada sektor properti, real estate, dan konstruksi bangunan yang terdaftar di BEI berdasar perspektif teori fraud pentagon. Pengumpulan data menggunakan teknik purposive sampling dan analisis data menggunakan regresi logistik. Hasil penelitian menunjukkan bahwa faktor tekanan eksternal, pengawasan yang tidak efektif, kualitas auditor eksternal, pergantian auditor, rasionalisasi yang diproksikan dengan opini auditor, pergantian direksi, dan hubungan politik berpengaruh terhadap FFR. Sedangkan faktor target keuangan, stabilitas keuangan, kepemilikan institusional, dan frekuensi kemunculan gambar CEO dalam laporan tahunan tidak berpengaruh terhadap FFR.

Kata Kunci : Teori Pentagon; Kecurangan Pelaporan Keuangan; Tata Kelola Perusahaan; Keberlanjutan

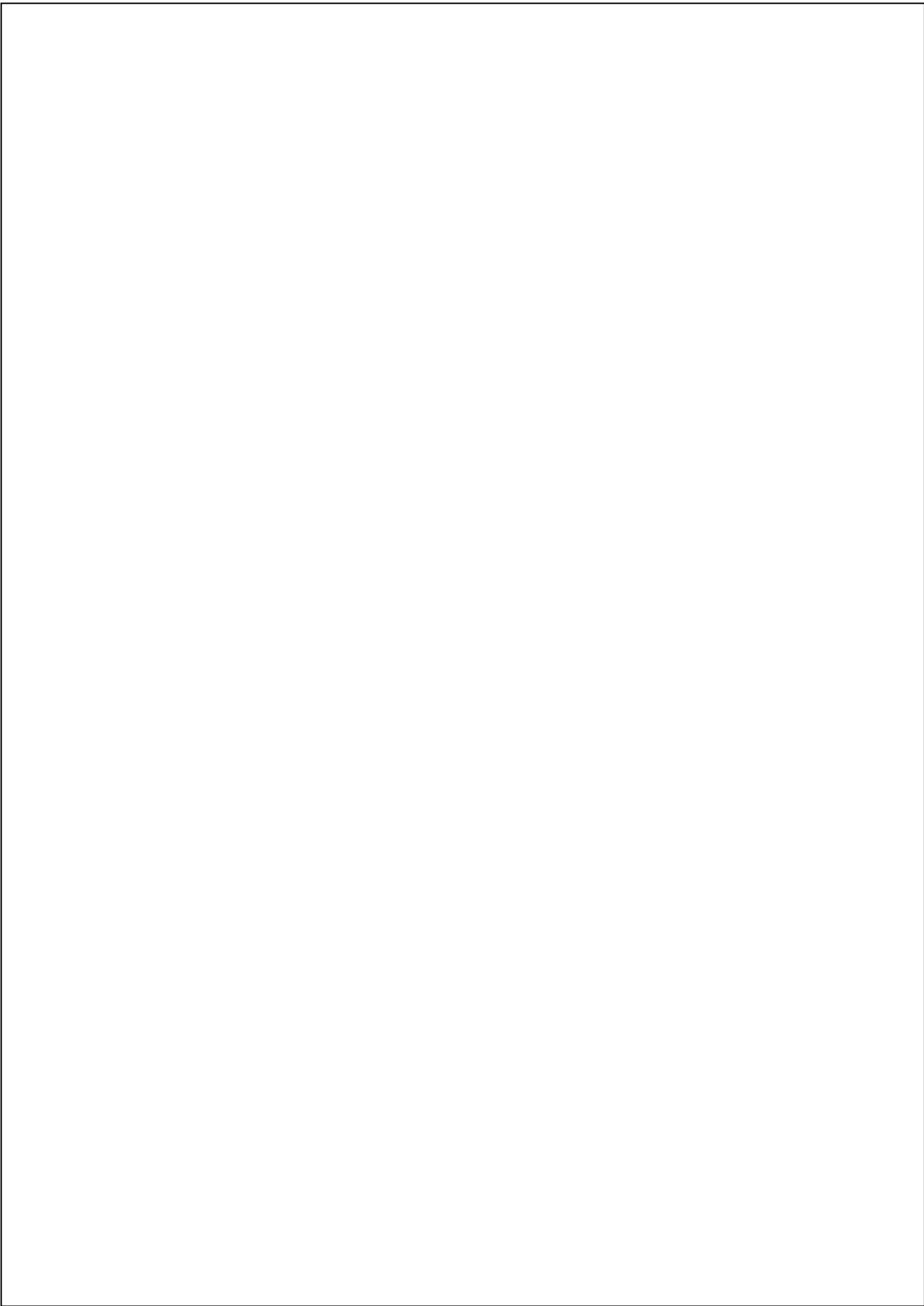
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INTRODUCTION

The act of intentionally presenting invalid information in financial statements to avoid negative opinions is called Fraudulent Financial Reporting (FFR). FFR occurs when there is a conscious attempt to provide invalid information to other parties regarding the financial statements of an entity, thereby causing significant risks to creditors and shareholders and a capital market financial crisis (Huang, Tsaih, & Yu, 2014). Fraudulent financial behavior can be said as a form of deliberate effort by management to deceive and even mislead users and readers of the financial report (Arens, Elder, & Beasley, 2008; Priantara, 2013; Sihombing & Rahardjo, 2014).

Many frauds currently occur in Indonesia, one of which occurs in the property, real estate, and building construction sectors. Fraud incidents occurred in the building construction sub-sector, namely PT Adhi Karya, Teuku Bagus Mokhamad Noor (former Division Head), and Andi Mallarangeng (Former Menpora) and Deddy, who used their authority to make decisions for their enrichment and loss. country. The KPK named Hambalang as a suspect on March 1, 2013, namely Teuku Bagus. In this case, the auction winner pays bribes to officials and the legislature to win the auction case. Regarding Deddy Kusdinar, the entity gave around 14 billion rupiahs from PT Wika around 6.9 billion rupiahs (Maharani, 2014). Sudaryatmo, Chairman of YLKI, said that there was an increase in complaints of violations of law in the property sector that users complained to the foundation. In 2014, it was ranked second after the financial sector as well as banking. In that year, there was a corruption case committed by the director of PT Sentul City Tbk. Kwee Cahyadi Kumala. His arrest was the perpetrator of the expansion of a nature reserve in Bogor Regency. In the foundation's records, there were about 68 users who complained to the foundation. The rise of fraud in the property sector is around 12.7 percent, which is 121 incidents starting in 2013 (Annisya et al., 2016). These cases show agency conflicts between agents and principals, which encourage fraudulent actions (Javaid & Javid, 2017; Jensen & Meckling, 1976). Therefore, serious handling of fraud cases that are rife in the property sector is needed.

Agency theory is very appropriate to explain this research (Jensen & Meckling, 1976), where a conflict of interest triggers fraud. In addition, several theories that can also be used to detect financial fraud behavior are the fraud triangle, diamond, and pentagon. The initial theory of the fraud triangle is the detection of FFR caused by pressure, opportunity, and rationalization (Cressey, 1953). Furthermore, the theory develops into the fraud diamond theory introduced by Wolfe & Hermanson (2004) by adding one element that significantly affects fraud, namely capability. The latest development related to fraud theory is the emergence of the fraud pentagon introduced by Crowe-Horwath (2011), which is an extension of the two previous theories, namely the triangle and diamond with the addition of a new element, namely arrogance, which has never been used before in detecting financial reporting fraud. Applying the five elements in the pentagon theory, namely, opportunity, pressure, competence, rationalization, and arrogance, will demonstrate a more comprehensive detection of FFR. The five elements of this theory are Crowe's Deception Pentagon Theory (Crowe-Horwath, 2011).

Previous studies on financial reporting fraud have tended to focus on the nature of financial reporting fraud (La Porta et al., 1999; Beasley, Hermanson, Carcello, & Neal, 2010), corporate governance mechanisms (Beasley, Carcello, Hermanson, & Lapides, 2000), and predictions of financial reporting fraud planned, unethical behavior (Carpenter & Reimers, 2005), fraud detection through financial reports (Dalnial, Kamaluddin, Sanusi, & Khairuddin, 2014), fraud detection in financial

reporting fraud related to topology pattern and feature extraction of financial statement fraud (Huang et al., 2014), fraud detection in banking and manufacturing companies with Faradiza (2019). Previous studies detailing the factors that influence financial reporting fraud have yielded inconsistent results. Studies Akbar (2017) indicates that FFR is caused by pressure. Tessa & Harto (2016) and Bawekes et al. (2018) shows that pressure and arrogance are important elements in detecting FFR. Studies Aprilia (2017) also shows that the pressure element which is proxied by financial stability affects fraudulent financial reporting, while the other elements do not affect FFR. On the other hand, research Ulfah et al. (2017) indicates that fraudulent financial reporting is significantly affected by the auditor's opinion and the change of auditor which is included in the rationalization element. Novitasari & Chariri (2018) stated that the elements in Crowe's fraud pentagon theory, namely rationalization, and arrogance, can increase the likelihood of FFR. However, research by Faradiza (2019) shows that rationalization and arrogance do not affect FFR. The results of this research are supported by Nindito, (2018), which states that the FFR has no influenced by the arrogance factor.

This research is different from previous fraudulent financial reporting research, where this research uses the five elements of Crowe's Theory of Deception and broadens the detection area on elements of political connections. We feel the need to link fraudulent financial reporting with political connections for several reasons. First, it is no longer a secret that Indonesian politics plays an important role in the business world. Many politicians are involved in the business world, and vice versa; Many businessmen are involved in politics. Entrepreneurs enter politics because of concerns over excessive government regulation, tax burdens, and inadequate property protection (Li, Meng, & Zhang, 2006). From a politician's point of view, government officials need the support of entrepreneurs to achieve economic and political goals, including campaign finance needs (Miettinen & Poutvaara, 2014). Companies with political connections tend to underperform and break the law (Guoping & Hong, 2015), engage in tunneling behavior and earnings management (Habib et al., 2017). Therefore, this research aims to detect financial reporting fraud using Crowe's Pentagon theory and broaden the detection area to aspects of political connections.

This research uses a sample of property, real estate, and building construction companies during the 2015-2017 period because, during that period, the number of fraud cases in companies' sample tends to increase. The results of this research indicate that FFR is influenced by external pressure, ineffective monitoring, quality of external auditors, auditor turnover, rationalization proxied by auditor opinion, change of directors, and political connections. These results indicate that in the Indonesian context, particularly in companies' samples, these variables have the potential to trigger FFR. While financial stability, financial targets, frequency of appearance of CEO images, and institutional ownership do not affect FFR.

The results are expected to benefits theoretically the development of literature related to agency conflict between principals, agents, and all stakeholders. In addition, the results are also expected to have a role in corporate governance policies to minimize fraud financial reporting.

METHOD

The sample period was conducted in 2015-2017 because the development of the property, real estate, and building construction sectors in Indonesia tends to increase. The data analysis technique used logistic regression and the analytical tool used

Minitab Version 18. Sample selection using purposive sampling, while the number of samples that meet the criteria are presented in Table 1.

Table 1. Criteria for Sample Companies

No.	Information	Amount
1	Property entities, luxury housing, and construction buildings on the IDX for the 2015-2017 period.	58
2	The entity does not publish audited financials and annual information on the IDX portal during 2015-2017, which is translated into Indonesian rupiah (IDR/ Rp).	(12)
3	Companies deleted between 2015-2017	0
4	Information on data related to research variables is not entirely available (data as a whole are not available in publications during the 2015-2017 period).	(2)
Total Sample Overall		44

The number of samples is 44 companies. Before the regression, some missing observational data and years of observation of companies with different financial years were deleted, so the final number of observational data in this research was 115. There are 12 research variables, namely Financial Target (FT), Financial Stability (FS), External Pressure (EP), Institutional Ownership (IO), Ineffectiveness Monitoring (IM), External Auditor Quality (EAQ), Auditor Change (AC), Auditor's Opinion (AO), Change of Directors (CD), CEO Image Frequency, Political Connection (PC), and Fraudulent Financial Reporting (FFR). Details of the measurement of each variable are shown in Table 2.

Table 2. Variables and Measurements

No.	Variable	Measurement
1	FT	ROA
2	FS	ACHANGES
3	EP	Leverage
4	IO	OSHIP
5	IM	BDOUT
6	EAQ	Code 1 if using KAP BIG 4 and and code 0 otherwise
7	AC	Code 1 if a change in KAP and code 0 otherwise
8	AO	Code 1 for companies that receive an unqualified opinion in explanatory language, and code 0 otherwise
9	CD	Code 1 if a change of directors and code 0 otherwise
10	CEO Image Frequency	CEO Image Appearance Frequency
11	PC	Code 1 if there are directors or board of commissioners who have political relations and code 0 otherwise
12	FFR	Code 1 for companies that do restatement of financial statements and code 0 otherwise

RESULT AND DISCUSSION

This research aims to provide empirical evidence about the factors that influence FFR using Crowe's Pentagon theory. Logistic regression analysis with Minitab version 18 was used to test the effect between variables. Before performing logistic regression analysis, descriptive statistical analysis was performed. The feasibility test of the regression model consists of a test NS overall fit model, Hosmer's test, Lemeshow's test, Nagelkerke's r square test, and the classification matrix test. The results of descriptive statistical tests are presented in the Table 3.

Table 3. Descriptive Statistics

Variable	Means	St. Dev	min	Max
FT	0.048	0.064	-0.249	0.359
FS	140.1	843.4	-99.40	8882.6
EP	0.425	0.195	-0.015	0.793
IO	65.94	23.39	11.58	99.99
IM	0.384	0.103	0.170	0.830
EAQ	0.316	0.467	0.000	1,000
AC	0.206	0.406	0.000	1,000
AO	0.897	0.304	0.000	1,000
CD	0.111	0.315	0.000	1,000
CEO Image Frequency	4.957	1,729	1,000	11.00
PC	0.273	0.447	0.000	1,000
FFR	0.760	0.428	0.000	1,000

Table 3 shows that the total observation data obtained in this research were 115 companies during 2015 - 2017. The financial target showed the lowest value of -0.249 disclosed by the DGIK company in 2016. Disclosure of unfriendly financial targets indicates that the company in that period suffered losses. However, in the 2017 period, the DGIK company improved its performance by maximizing its assets to generate profits. The FMII company revealed the highest value of 0.359 in 2016. FMII, which is engaged in real estate and construction services, experienced an increase in its sales target in 2016 by 68.33 percent of the set target. FMII's source of income comes from the sale of land, warehousing and housing. Revenue growth in 2016 was obtained from the sale of land which experienced a significant increase of around 90 percent from 2015. The mean value is 0.048 which is lower than the standard deviation of 0.064, indicating that the data varies. The mean value is 0.048 which is lower than the standard deviation of 0.064, indicating that the data varies.

Financial stability showed the lowest value of -99.40 which was disclosed by the SMRA company in 2017. SMRA's financial stability in 2017 was negative due to a very significant decline in asset value compared to the previous period. The decrease in assets was due to an increase in financial expenses. The highest value of 8882.6 was disclosed by the MYRX company in 2015. During the observation period, the asset value of the MYRX company continued to increase. The mean value of 140.1 is lower than the standard deviation of 843.4, indicating variable data.

External pressure showed the lowest value of -0.015 disclosed by the OMRE company in 2015, meaning that the company has not been able to manage assets to meet its obligations. However, in 2016 and 2017, the company optimized the use of its assets so that it was able to meet its obligations. The highest value of 0.793 was

disclosed by the ADHI company in 2015. The company has a good performance in asset management so that during the observation period, the company demonstrated its ability to fulfill its obligations. The mean value of 0.425 which is higher than the standard deviation of 0.195 indicates that the data is less varied. Overall, the companies that were used as research samples carried out operational activities using borrowed funds.

Institutional shareholdings show the lowest value of 11.58 disclosed by MYRX companies during 2015–2017. During the observation period, the company did not have a share ownership program for employees. The MTLA company revealed the highest score of 99.99 during 2015–2016. The subsidiary has a 99.99 percent shareholding. The mean value of 65.94 which is higher than the standard deviation of 23.39 indicates that the data is less varied. Overall, the observed companies own 65.94 percent of institutional shares.

The ineffectiveness of supervision shows the lowest value of 0.170 disclosed by BCIP companies during 2016–2017 and the highest value of 0.830 disclosed by LPKR companies in 2016. The average value is 0.384 higher than the standard deviation of 0.103, indicating that the data is less varied. Whole, Companies that are used as research samples have independent commissioners of at least 30 percent of the total company's board of commissioners.

Auditor quality indicates the lowest value of 0.000 and the highest value of 1000 by measuring using a dummy. The average value of 0.316 means that 31.6 percent of companies use the services of KAP Big 4 in auditing financial statements. The mean value is 0.316 lower than the standard deviation of 0.467, indicating that the data varies.

The change in auditors indicates the lowest value of 0.000 and the highest value of 1000 by measuring using a dummy. The average value of 0.206 means that 20.6 percent of companies change auditors during the 2015–2017 period. The mean value is 0.206 lower than the standard deviation of 0.406, indicating that the data varies.

The auditor's opinion indicates the lowest value of 0.000 and the highest value of 1000 by measuring using a dummy. The average value of 0.897 means that 89.7 percent of companies have an unqualified opinion on the financial statements that have been audited by the auditors. The mean value is 0.897 which is higher than the standard deviation of 0.304, indicating a small variation in the data.

Changes in directors showed the lowest score of 0.000 and the highest score of 1000 by measuring using a dummy. The average value of 0.111 means that 11.1 percent of companies change directors during the 2015–2017 period. The mean value of 0.111 is lower than the standard deviation of 0.315, indicating that the data varies.

The frequency of the appearance of the CEO image shows the lowest value of 1,000 disclosed by the company KIJA, which only shows the image of the CEO in 2017, whereas in 2015 and 2016, the image of the CEO did not appear. The highest value of 11,000 was disclosed by the JKON company in 2017. The average value of 4,957 is higher than the standard deviation of 1,729, indicating fewer variable data.

Political relations show the lowest value of 0.000 and the highest value of 1000 using a dummy measurement. The average value of 0.273 means 27.3 percent of companies the board of directors or the board of commissioners have political relations within the company during the 2015–2017 period. The mean value of 0.273 is lower than the deviation of 0.447, indicating that the data varies.

Fraudulent financial reporting shows a low of 0.000 and a high of 1,000 with dummy measurements. The average value of 0.760 means that 76 percent of companies



restate their financial statements during the 2015-2017 period. The mean value of 0.760 is greater than the deviation of 0.428, indicating that the data is less varied.

This research predicts that FFR is influenced by pressure factors, opportunity factors, rationalization factors, competence factors, and arrogance factors. Thus the model developed in this research is:

$$FFR = \beta_0 + \beta_1 ROA + \beta_2 ACHANGE + \beta_3 Leverage + \beta_4 InstOwn + \beta_5 BDOUT + \beta_6 EAQ + \beta_7 AC + \beta_8 AO + \beta_9 CD + \beta_{10} CEO\ Picture + \beta_{11} Polcom + \epsilon \dots\dots\dots (Equation\ 1)$$

Based on this model, an estimation test was carried out as shown in table 4.

Table 4. Independent Sample T-Test

Source	DF	Chi-Square	P-value
Regression	11	52,23	0,000
FT	1	1,47	0,225
FS	1	0,09	0,771
EP	1	7,34	0,007
IO	1	0,61	0,433
IM	1	6,92	0,009
EAQ	1	6,46	0,011
AC	1	7,26	0,007
AO	1	21,11	0,000
CD	1	6,80	0,009
CEO Image Frequency	1	0,14	0,709
PC	1	7,48	0,006
Error	104		
Total	115		

Financial Target and Fraudulent Financial Reporting

The results of logistic regression testing prove that FT has no significant effect on FFR, as evidenced by p-value = 0.225 > 0.05. This shows that pressure in the form of financial targets set by companies sample does not have an impact on FFR. The property, real estate, and building construction sectors always experience growth every year because people still tend to invest in these sectors. Therefore, the company has no difficulty in achieving the ROA target. It is proven by the FMII company that was able to achieve financial performance in 2016 with an achievement of Rp.402 billion or an increase of 68.33 percent from the same period in 2015 of Rp.238.86 billion.

Assessment of financial targets through ROA can show the company's performance in optimizing its assets to gain profits. Companies that have a high ROA value in a period have no pressure so they can report financial performance without manipulation. This condition is supported by the creation of good corporate governance and superior human resources. HR management and development can support the creation of a conducive work environment to increase professionalism so that all components are motivated to increase company value compared to manipulating company financial reports.

The results of this research are in line with Rusmana & Tanjung (2020); Novitasari & Chariri (2018); Bawakes et al. (2018); Septriyani & Handayani (2018); Tessa & Harto (2016); and Ulfah et al. (2017). Financial targets as measured by ROA do not necessarily indicate FFR. The company seeks to increase the value of ROA by

maximizing financial and non-financial assets such as the ability of employees and loyal customers. However, this result is not in line with Faradiza (2019); Santoso (2019); Septriyan & Handayani (2018) and Widarti, (2015) which indicates that FT do affect FFR.

Financial Stability and Fraudulent Financial Reporting

The results of logistic regression testing prove that FS has no significant effect on FFR, as evidenced by $p\text{-value} = 0.771 > 0.05$. This shows that if the company's financial stability is stable, it will not affect the company in manipulating financial statements. The sample company shows that the company's financial condition is stable. Financial stability is seen from changes in the growth of company assets every year. It is proven in the MYRX company which during the observation period, the value of the company's assets continues to increase. The financial stability achieved is also influenced by good corporate governance. The existence of strict supervision from the board of commissioners in controlling management actions will minimize the occurrence of FFR. The act of manipulating stable financial conditions is an action that will trigger distrust of shareholders, which will also lead to a decrease in the value of the company.

The results of this research are in line with research Aprilia, (2017); Bayagub, Zulfa, & Firdausi Mustoffa (2018); Ulfah et al., (2017); Novitasari & Chariri (2018); Ijudien (2018); and Rusmana & Tanjung (2020). The company will not rashly commit fraud just to increase the stability of the company. The development of the property, real estate, and building construction sectors means companies don't have to worry about losing investors. However, this result is not in line with Bawekes et al. (2018); Sihombing & Ratardjo (2014); Septriyan & Handayani (2018); and (Faradiza, 2019) which concludes that financial stability affects FFR.

External Pressure and Fraudulent Financial Reporting

The results of logistic regression testing prove that EP has a significant effect on FFR, as evidenced by $p\text{-value} = 0.007 < 0.05$. High leverage indicates high external pressure so that it has the potential to commit fraudulent financial reporting; as stated by Dalnial et al. (2014) that a high debt-to-equity ratio is one indicator of fraudulent financial reporting. Companies that have high leverage indicate that the company has large debt and high credit risk as well. This makes external parties, namely investors and creditors who have provided loans, worry that the company will not be able to repay the loans. Therefore, the company must be able to convince external parties that the company will be able to repay the debt by manipulating the financial statements. Companies manipulate financial reports with the aim that the company's performance and company prospects look good so that they can convince investors and creditors that the company can make debt payments.

The results of this research are in line with Widarti, (2015); Tessa & Harto (2016)); Bayagub et al. (2018); Rusmana & Tanjung (2020); and Yesiariani & Rahayu (2017) which states that the higher the loan an agency, the lender will hesitate in providing a loan. The existence of these conditions is likely to encourage the entity to make efforts to attract creditors' sympathy by committing fraudulent financial reporting actions to achieve the goal of obtaining loan funds.

The results of this research are not in line with Fimanaya & Syafrudding (2014); Novitasari & Chariri (2018); Bawekes et al. (2018); Septriyan & Handayani (2018) and Faradiza (2019) who found evidence that the higher the company's debt, the more



additional supervision from creditors and company management will reconsider committing fraud. Excessive pressure for the company to fulfill the wishes of shareholders does not necessarily make management increase debt which will cause a high burden and ultimately encourage management to practice financial statements fraud (Ijudien, 2018).

Institutional Ownership and Fraudulent Financial Reporting

The results of logistic regression testing prove that IO has no significant effect on FFR, as evidenced by $p\text{-value} = 0.433 > 0.05$. Institutional investors are better able to prevent earnings management and are considered more professional in controlling investment portfolios. The more significant the proportion of shares owned by the institution will lead to more effective supervision because it can control the opportunistic behavior of managers and reduce agency costs (Jensen, 1986; Nuraina, 2012). Thus, the higher the proportion of institutional ownership, the higher the professionalism and better corporate governance, so that it will not encourage manipulation of financial statements. The results of this research are also in line with research Bawekes et al. (2018); Bayagub et al. (2018); Tessa & Harto (2016); Ulfah et al. (2017); Hardiningsih (2010); Mahariana & Ramantha (2014); and Riandani & Rahmawati (2019).

In encouraging increased supervision of company operations to be more optimal, the role of institutional ownership is very much needed in management supervision. This is because institutional investors are involved in strategic decisions so they do not easily believe in profit manipulation (Riandani & Rahmawati, 2019). Managers may be motivated to manipulate the company's profits to meet short-term goals. The existence of institutional ownership results in managers being obliged to meet investors' profit targets so that the act of manipulating company profits will still be carried out (Mahariana & Ramantha, 2014).

Ineffectiveness Monitoring and Fraudulent Financial Reporting

The results of logistic regression testing prove that IM has a significant effect on FFR, as evidenced by $p\text{-value} = 0.009 < 0.05$. This shows that the existence of independent commissioners has an important role in the supervisory function. The effectiveness of supervision is proven to reduce the manipulation of financial reports. This research is in line with Septriyani & Handayani (2018). Ineffective monitoring is a situation where ineffective internal controls lead to fraud. Weak corporate supervision provides an opportunity for someone to commit fraud for their personal interests. Based on agency theory, the absence of effective control from the principal will allow the agent to commit fraudulent actions. An external party is needed, namely an independent board of commissioners in supervising the company so that fraudulent practices in financial statements can be minimized. The existence of a board of commissioners who has no relationship with shareholders, directors, management or other internal parties is expected to carry out more independent supervision.

The results of this research are not in line with Faradiza (2019); Rusmana & Tanjung (2020); Novitasari & Chariri (2018); Bawekes et al. (2018); and Yesiariani & Rahayu (2017). The existence of an independent board of commissioners is meaningless if there is intervention so that the independent commissioner cannot carry out its function properly.

External Auditor Quality and Fraudulent Financial Reporting

The results of logistic regression testing prove that EAQ has a significant effect on FFR, as evidenced by $p\text{-value} = 0.011 < 0.05$. This research is not following research from Ulfah et al. (2017). This shows that the professionalism and independence of auditors play an important role in improving the quality of financial reports. Big 4 audit entities have human resources that are committed to avoiding financial information fraud compared to Non Big 4 audit entities. Audit quality will affect the quality of financial reports so that companies audited by Big 4 auditors tend to report following applicable accounting standards and avoid manipulation of financial statements.

When special auditors audit the financial statements of companies who usually have better knowledge of the company's business processes, they can work well together and transfer knowledge with the audit committee so that they can further improve the quality of financial statements, namely earnings predictability (Mutmainnah & Wardhani, 2013). The results of this research are not in line with Bawekes et al. (2018); Bayagub et al. (2018); and Hardiningsih (2010) which states that audit quality has no significant effect on the integrity of financial statements.

Auditor Change and Fraudulent Financial Reporting

The results of logistic regression testing prove that AC has a significant effect on FFR, as evidenced by $p\text{-value} = 0.007 < 0.05$. These results indicate that the change of auditors is possible because of the agency conflict between the agent and the principal. Change of auditors can be considered as a form of eliminating traces found by previous auditors. The change of auditor will result in a transition period from the old auditor to the new auditor, as stated by Sihombing & Rahardjo (2014) that the change of a company's public accountant can result in a period of transition and stress for the company. Changes in auditors can also be carried out because the auditor resigns because of the discovery of material misstatements.

However, in the context of Indonesia, the change of auditors may not only be due to fraud. This condition is also possible because of the necessity to comply with Government Regulation Number 20 of 2015 article 11 paragraph 1 which regulates the provision of audit services on the financial statements of an entity by public accountants for a maximum of five consecutive financial years (Yesiariani & Rahayu, 2016). Thus, in the Indonesian context, especially in the sample companies used in this research, auditor turnover has a significant effect on fraudulent financial reporting.

Auditor's Opinion and Fraudulent Financial Reporting

The results of logistic regression testing prove that the AO has a significant effect on FFR, as evidenced by $p\text{-value} = 0.000 < 0.05$. These results indicate that the auditor's opinion represents the quality of the client's financial statements. The better the auditor's opinion, the more likely the client has presented the financial reporting following generally accepted accounting principles.

In this research, the auditor's opinion represents the client's rationalization. As stated by Shelton, (2014) that rationalization is a person's mindset that justifies his thoughts in committing crimes. This client rationalization gets tolerance from the auditor. This is confirmed by Sukirman & Sari, (2013) which state that the auditor needs to consider and identify risk factors that cause the client to commit fraudulent acts. Thus, in the context of Indonesia, particularly companies in the property, real



estate, and building construction sectors, have rationalizations in committing financial reporting fraud.

Change of Directors and Fraudulent Financial Reporting

The results of logistic regression testing prove that the CD has a significant effect on FFR, as evidenced by $p\text{-value} = 0.009 < 0.05$. These results indicate that the change of directors indicates the possibility of financial reporting fraud. The position of the board of directors is often a determining factor for fraud. The change of directors was carried out due to two possibilities, first, due to efforts to improve the performance of the previous directors. The second possibility is that there was an attempt to eliminate the previous directors, knowing of fraudulent financial reporting (Siddiq & Suseno, 2019).

The board of directors is considered to have the capability. The act of fraud in financial reporting is impossible for people who do not have good capability in committing fraud. As opinion (Wolfe & Hermanson, 2004) states that a person commits fraud because he has capabilities in the form of position/function, brains, confidence/ego, coercion skills, effective lying, and immunity to stress. Based on this statement, the CEO and the board of directors have the appropriate characteristics and can take advantage of these positions to encourage those around them to commit fraudulent acts. Changes in the board of directors will cause a stress period, thus opening up opportunities for fraudulent financial reporting (Brennan & McGrath, 2007). Thus, the change of directors has an impact on fraudulent financial reporting. The results of this research are in line with Bayagub et al. (2018); Faradiza (2019); Septriyani & Handayani (2018).

CEO Image Frequency and Fraudulent Financial Reporting

The results of logistic regression testing prove that the frequency of the appearance of the CEO's image has no significant effect on FFR, as evidenced by $p\text{-value} = 0.709 > 0.05$. Several previous studies have shown that the frequent appearance of the CEO's image in the annual report is synonymous with arrogance. CEO arrogance can affect management behavior in making financial statements. The pressure exerted by the CEO can trigger fraudulent financial reporting (Dumaria & Majidah, 2019). However, this research gives different results, where the frequency of the appearance of the CEO's image does not affect fraudulent financial reporting. These results indicate that the possible frequency of appearance of the CEO image in the annual report is only as a form of introducing the CEO figure to stakeholders and the wider community as well as a form of CEO self-actualization in various company activities.

The existence and reputation of the CEO need to be known to the public so that the CEO figure in the form of images listed in the annual report will further introduce the CEO's self-image. Therefore, in the Indonesian context, especially in the property, real estate, and building construction sector companies, the appearance of the CEO image in the annual report does not affect fraudulent financial reporting. The results of this research are in line with Ulfah et al. (2017); Setiawati & Baningrum (2018); Nurchoiranisa et al. (2020). However, the results of this research are not in line with Tessa & Harto, (2016) and Siddiq & Suseno, (2019).

Political Connection and Fraudulent Financial Reporting

The results of logistic regression testing prove that PC has a significant effect on FFR, as evidenced by $p\text{-value} = 0.006 < 0.05$. These results indicate that the stronger the political relationship, the higher the level of fraudulent financial reporting. Political

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relations will benefit both the company and the government. Companies need political relations because of the hope of getting projects from the government to control large amounts of resources (Lockett, 1988). Likewise, the government needs entrepreneurs for funding purposes during campaigns (Miettinen & Poutvaara, 2014). Politics plays an important role in the business world. The power of political influence from government officials, chairmen, or members of the board or parties through related party transactions often has an impact on business decision-making.

Political connections provide many advantages in the form of obtaining financial resources but have the potential to cause an oversupply of credit and increase the financial burden (Ling, Zhou, Liang, Song, & Zeng, 2016). The existence of pressure in the form of an increase in burden will potentially trigger actions that lead to fraud. Therefore, political connections tend to affect financial reporting fraud. The results are in line with Matangkin et al. (2018) and Guoping & Hong, (2015), which states that companies with political connections tend to underperform and break the law. However, the results are not in line with (Hasnan, Daie, & Hussain, 2016) which states that political relations do not affect financial reporting fraud.

CONCLUSION

Based on empirical analysis, it can be concluded external pressure, ineffective monitoring, external auditor quality, auditor change, rationalization proxied by auditor opinion, change of directors, and political connections affect FFR. These results indicate that in the Indonesian context, particularly in property, real estate, and building construction sector companies, these variables have the potential to trigger FFR. Meanwhile, financial targets, financial stability, institutional ownership, and the frequency of the appearance of the CEO image in the annual report do not affect FFR.

The results of this research have implications for the structure and mechanism of corporate governance, where the factors that influence FFR are very important to consider. Accounting scandals, objectivity, and reliability of financial reports are important for stakeholders, which directly or indirectly have an impact on sustainability.

The sample of this research is limited to property, real estate, and building construction sector companies. Therefore, further studies can expand the area of observation to all sectors of the company and relate several other factors such as CEO duality, military relations, capital structure, and ownership structure.

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