THE DETERMINATION OF FRAUDULENT FINANCIAL REPORTING CAUSES BY USING PENTAGON THEORY ON MANUFACTURING COMPANIES IN INDONESIA

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ABSTRACT

As exemplified in (Warren et al., 2014), there are some manufacturing companies that indicated doing some fraud. This shows that manufacturing companies are vulnerable to fraudulent financial reporting. This study aims to assess the factors that cause the occurrence of fraudulent financial reporting on manufacturing companies. In this research, data is analyzed by using structural equation modeling (SEM) varian based technique or known as partial least square (PLS). The software used to analyze data is warp pls 5. The sampling technique used is purposive sampling. The data population is 144 manufacturing companies listed in Indonesia stock exchange and published its financial statements during the period 2013 to 2015. However, there are only 79 companies met the criteria as samples. This study found that the empirical evidence shows the factors affecting the occurrence of fraudulent financial reporting on manufacturing company in Indonesia during the observation periode caused by pressure. It is because only pressure which has p-value less than 0,01. While other factors such as opportunity, rationalization and capability have p-value more than 0,01, it means those three laten variabel have no effect on fraudulent financial reporting. This study also found empirical evidence that there are three indicators that can be used as indicators of pressure which are financial targets, financial stability ,and institutional ownership. The pressure factor dominates the influence of companies in applying fraudulent financial reporting that is equal to 67.2%. While other factors that affect the occurrence of fraudulent financial reporting outside of the variable studied is 32.8%.

Key words: fraudulent fiancial reporting, pentagon theory.

Introduction

Accounting is often described as an art that is the procedure of recording, classcifying, and reporting a company's economic events to interested parties (Warren et al., 2014). In this era of globalization, the role of accounting becomes very important where reports generated by accounting information and used as the basis for making investment decisions. Unfortunately, the information generated accounting has vulnarability that can make the information presented to be biased. This is often known as fraudulent financial reporting where management uses judgment in financial reporting and transaction settlement to make financial report readers mistaken in understanding the company's economic performance (Dechow & Skinner, 2000).

The act of fraud in financial reporting is called a fraudulent financial reporting (FFR). The FFR as described by the Association of Certified Fraud Examiners (ACFE, n.d.) is a deliberate misstatement regarding the reporting of a company's economic condition by misstating or eliminating financial information or disclosure of financial information to obscure the users of financial statements in making decisions. There are many studies that have invetigated fraudulent acts such as FFR and its cause. The development of fraud ranging cause from the triangle theory to the diamond theory and the last pentagon theory refine research on fraudulent financial reporting. Some researches that investigated the cause of fraudulent financial reporting showed inconsistent result. This is what causes researchers interested in doing research on Pentagon Theory in measuring the causes of fraud. Besides, in some cases show that manufacturing companies are vulnerable to fraudulent financial reporting.

Manufacturing companies are vulnerable to the occurrence of FFR because manufacturing companies require various assumptions and accounting methods in capturing the company's economic events. The case of fraudulent financial reporting occurred, as in July 2015 on the world's tech giant company Toshiba Corporation. As well as in Indonesia, cases occurred as in PT Kimia Farma is the evidence of the fraudulent financial reporting vulnerability. The examination of the factors that can affect the fraudulent financial reporting on manufacturing companies is considered necessary because of the fragility of FFR practices that occur in manufacturing companies. The examination of the factors that can affect the fraudulent financial reporting can be determined from the theory of fraud. There are Fraud’s three major theories that usualy used in determining the occurance of FFR. It is Fraud Triangle, Diamond and Pentagon.

Until the discovery of Pentagon Theory as proposed by (Horwath, 2011) and its development currently, there were many researches related to the causes of fraudulent financial reporting. As well as research conducted by (Diany & Ratmono, 2014), (Tiffani & Marfuah, 2015), (Indarto & Ghozali, 2016), (Annisya et al., 2016), (Tessa & Harto, 2016), (Aprilia, 2017) and others. However, the results from previous research still were inconsistent. Therefore, this study tried to get empirical evidence about the causes of the occurrence of FFR with the subject of manufacturing companies in Indonesia based on Pentagon Theory.

Based on these research objectives, two research questions were developed. First, do the variables studied such as pressure, opportunity, rationalization, capability, and arrogance affect the FFR on manufacturing companies listed on the Indonesia stock exchange period 2013 to 2015? Second, what are factors dominate the effect on the occurrence of FFR on manufacturing companies listed on the Indonesia stock exchange period 2013 to 2015?

Literature Review and Hypotheses

Agency Theory

Agency theory define as a contract in which one or more principals involve management (agent) to perform some services on their behalf (principal) (Jensen & Meckling, 1976). Management is a party contracted by shareholders to work in the interests of shareholders and agents will always act best for shareholders' interests. Therefore, managers must be responsible to shareholders. The agency theory shows the importance of the separation of functions between company management and owner relationships to managers where the purpose of this separation is to create efficiency and effectiveness by hiring professionals to manage the company. However, on the other side of this separation can raise a problem that is when there is inequality of purpose between principal and agent.

Fraud Theory

There are Fraud's three major theories that have been founded. It is Fraud Triangle, Diamond and Pentagon. Fraud Triangle Theory is a theory that examines the causes of fraud accurance. Fraud Triangle describes three factors that present in every situation fraud namely pressure, opportunity, and rationalization. Fraud Triangle consists of three conditions that are generally present at the time of incident fraud: incentive / pressure, opportunity, and attitude / rationalization (Turner et al., 2003). The second theory, Fraud Diamond, said in increasing the fraud detection the factor should be added aspect of capability which is the development of fraud Triangle Theory. Fraud will not happen without the existence of the right person with the right ability (Wolfe & Hermanson, 2004). Elements of capability in fraud detection are considered, since fraud will certainly involve people who have capability in fraud.

In the current theory, the Triangle Theory can be reinforced into the Pentagon Theory (Horwath, 2011), where competence and arrogance are factors that support fraud. Competence is an element of opportunity capable of controlling the internal control and control of the situation for its own benefit. While arrogance is a behavior of superiority and greed from the execution of crimes that believe is company policy and its procedures are not applied (Horwath, 2011).

Hypotheses

The Pressure and FFR

This research study has four indicators used as the factors causing fraudulent financial reporting. These four factors are financial targets, financial stability, external pressure and institutional ownership.

Financial targets are often identified with short term targets within organization to earn a certain amount of profit. In some cases, financial targets may affect an employee doing fraud. Financial targets can make a pressure to them and because of it, employee will make fraud for their success. In line with the study suggest that financial targets significantly differentiate between fraud and non-fraud companies (Diany & Ratmono, 2014).

When a company is in stable condition then its value will rise in the perspective of investors, creditors, and public. Thus, managers will face the pressure to commit fraudulent financial reporting when financial stability and / or profitability are threatened by an economic, industrial, or operating entity situation. In line with the study suggest, when the company experiences growth is below the industry average, management will manipulate the financial statements to improve the company's prospects (Skousen et al., 2008).

Companies often experience a pressure from external parties. One of the pressure that corporate management often faces is the need for get additional debt or external financing sources in order to stay competitive, including research and development expenditure financing or capital (Skousen et al., 2008). The drive for fraudulent financial reporting increases with leverage if managers seek to gain access to cheaper costs for capital or the possibility breach of debt agreement. This is in line with the results that found external pressure has significant effect on FFR (Indarto & Ghozali, 2016).

There is an indication that institutional ownership within a company will be an emphasis on the company itself. This pressure occurs because the management has a greater responsibility due to the responsibility carried out not only to an individual, but also to the institution. In addition, the large share ownership by institutions rather than individuals makes management to do more business so as not to lose the investors, one of them is by beautifying the financial statements through manipulation. The percentage of certain shares owned by the institution may affect the process of preparing financial statements that prepared by management. Therefore, it is obiviously possible that the management conduct fraudulent financial reporting (Boediono, 2005).
Based on the explanation above then is formulated the following hypothesis:

H_1 : Pressure has affect on fraudulent financial reporting in manufacturing industry that list on Indonesia stock exchange period 2013 to 2015.

The Opportunity and FFR

Opportunity is a situation that allows a person in this case management to do fraudulent fiancial reporting. This research study has two indicators that used as the factors causing fraudulent financial reporting. These two factors are the number of the audit committee members and nature of industry.

The weakness of internal controls provides an opportunity for management to manipulate transactions by making fraudulent financial reporting. To avoid fraudulent financial reporting practices by management, company need a supervisory unit that capable to monitoring the company's operations. The supervisory unit that is generally formed by the company in conducting supervision is the audit committee. The existence of the audit committee is expected to reduce the occurrence of fraudulent financial reporting. So, the weak supervision from the audit committee lead to the opportunity of the management in doing fraud. This is in line with the study that found the opportunity factor significantly influence fraud (Annisya et al., 2016).

Assessment of estimates, such as obsolete inventories and bad debts allows management to manipulate financial reporting, such as manipulating the economic life of an asset. With this opportunity, the possibility of fraudulent financial reporting will be higher. In this study, the inventory is selected as an indicator of the factors that affect fraudulent financial reporting. It is because inventory is a current asset that is vulnerable to theft and fraud because inventory in a company is usually large in number and has a great influence on the balance sheet and profit and loss account (Ardiyani & Utaminingsih, 2015).

Based on the explanation above then is formulated the following hypothesis:
H_2 : Opportunity has affect on fraudulent financial reporting in manufacturing industry that list on Indonesia stock exchange period 2013 to 2015.

The Rationalization and FFR
Rationalization allows management, and employees to perform a fraudulent financial statement. People become trust violators when they conceive of themselves as having incurred financial obligations which are considered as non-socially sanctionable ((Cressey, 1953) in (Abdullah et al., 2015)). As a consequences for those assumtion, manager tend to do fraudulent financial reporting. Therefore, the stockholder such as shareholder or investor, creditor and other decision maker should be aware of management rationalization.

The auditor is an important component that should be a checker in the financial statements. Information about the company indicated by fraud, usually also known from the auditor. Companies that conduct fraud are more likely to make a change of auditors, because company management tends to reduce the possibility of detection by old auditors related to fraudulent financial statements. In line with the study stating that a company may reimburse auditors to reduce the likelihood of detecting fraudulent financial statements by the auditor (Lou & Wang, 2009).

An auditor may also act as an early warning in occurance of fraud. Through The auditor's opinion, it may state that something unusual happened with the audited financial statements. As found in the study concluded the earnings management practices would lead to adverse opinions (Francis & Krishnan, 1999). The action of earnings management or fraudulent financial reporting is certainly because management rationalize its actions.

Based on the explanation above then is formulated the following hypothesis:
H_3 : Rationalization has affect on fraudulent financial reporting in manufacturing industry that list on Indonesia stock exchange period 2013 to 2015.

The Capability and FFR
Fraud can arise because of the ability of an individual who has an important role in the company to conduct fraud. Capability means how much power and capacity of a person is doing fraud in the corporate environment. In this case, the positions of CEO, directors, or other divisional heads can be a decisive factor in the occurrence of a fraud, taking advantage of his position can influence others to smoothly cheat his actions. In previous research which related to capability, the research suggests that there is a significant positive relationship of the existence of capability to conduct fraud (Abdullahi et al., 2015).

In this study, Capability is indicated by change of directors and proportion of the independent commissary. The change of directors is the transfer of authority from the old directors to the current directors in order to improve the performance of the previous management. However, a change in the board of directors can create a stress period, which has an impact on the opening of opportunities for fraud. In line with the study that found the results that the change of directors had an effect on the level of accounting irregularities (Nurbaiti & Hanafi, 2017).

Fraudulent practices or fraud can be minimized by better supervision mechanism. Independent board is believed to improve the effectiveness of supervision of the company. The inclusion of commissioners who come from outside the company improve the effectiveness of the board in overseeing management to prevent fraudulent financial statements. In line with the result explaining increasing percentage of independent board of commissioners significant influence the level of fraudulent financial reporting (Wilopo, 2004).

Based on the explanation above then is formulated the following hypothesis:
H_4 : Capability has affect on fraudulent financial reporting in manufacturing industry that list on Indonesia stock exchange period 2013 to 2015.

The Arrogance and FFR
As mentioned below, arrogance is a behavior of superiority and greed from the execution of crimes that believes company policy and its procedures are not applied (Horwath, 2011). In this study, arrogance is shown by the frequent number of CEO's picture and CEO Duality. Arrogance is usually more directed to a person who has a high position in a company. A CEO tends to be more willing to show the status and position he has in the company because they do not want to lose their status or position. The CEO who shows his photo as in the financial statements indirectly symbolizes the arrogance of the CEO. Such arrogance can affect the company's performance and the possibility of fraudulent financial reporting. In line with research that found that the frequent number of CEO's picture as an indicator of arrogance has an effect on fraudulent financial reporting (Tessa & Harto, 2016).

CEO Duality is one factor used to determine the presence or absence of dual leadership in the company. If a CEO has two leadership in a company, it indicates that the CEO has a strong influence on the company's policy. Such circumstances may cause the CEO to conduct fraudulent financial reporting. As found previously that CEO duality significantly influences fraudulent financial reporting (Sitorus et al., 2017).

Based on the explanation above then is formulated the following hypothesis:

H_5 : Arrogance has affect on fraudulent financial reporting in manufacturing industry that list on Indonesia stock exchange period 2013 to 2015.

Research Design

Population and Sample

Population is the object of research that has certain qualities and characteristics set by the researchers to be studied and then to be drawn conclusions (Sugiono, 2012). The population in this study are all manufacturing companies in Indonesia listed or issued its shares in Indonesia Stock Exchange (IDX) period 2013 to 2015.

The sample was chosen by using purposive sampling technique that is the selection of sample based on a certain criterion (Jogiyanto, 2010). The criteria are as follows:

1. Manufacturing Companies that publish their financial statements fully start from 2013 until 2015.
2. Available required data such as, shareholder list, commissariat commission and audit report.
3. Companies that use the rupiah currency as their reporting currency.

Of the 144 listed manufacturing companies, only 79 companies met the criteria as samples.

Research Variabel

Endogenous Variables

Endogenous variable used in this research is fraudulent financial reporting. As applied previously fraudulent financial reporting is measured by using the F-Score Model (Annisya et al., 2016) as follows:

F-Score = Accrual Quality + Financial Performance

The formula of F-Score Model includes two components that can be seen in the financial statements, namely accrual quality and financial performance. Accrual quality is proxied with RSST accrual as follow:

$$RSST\ Accrual = \frac{\Delta WC + \Delta NCO + \Delta FIN}{Average\ Total\ Assets}$$

Description:

WC (Working Capital): *(Current Assets – Current Liability)*

NCO (Non Current Operating Accrual)*:* *(Total Assets – Current Assets – Invesment and Advances) – (Total Liabilities– Current Liabilities – Long Term Debt)*

FIN (Financial Accrual): *Total Investment – Total Liabilities*

ATS (Average Total Assets): *(Beginning Total Assets + Ending Total Assets): 2*

The seconds component of F-Score Model is financial performance. Financial performance is measured by changes on accounts receivable, changes on inventory accounts, changes on cash sales account, changes on EBIT as follows:

Financial performance ***= change on receivable + change on inventories + change on cash sales + change on earnings***

$$Change\ on\ receivables = \frac{\Delta Receivables}{Average\ Total\ Assets}$$

$$Change\ on\ inventories = \frac{\Delta Inventories}{Average\ Total\ Assets}$$

$$Change\ on\ cash\ sales = \frac{\Delta Sales}{Sales\ (t)} - \frac{\Delta Receivables}{Receivables\ (t)}$$

$$Change\ on\ earning = \frac{Earnings\ (t)}{Average\ Total\ Assets\ (t)} - \frac{Earnings\ (t-1)}{Average\ Total\ Assets\ (t-1)}$$

Exogenous Variables

In this study exogenous variables consist of four latent variables namely pressure, opportunity, rationalization, capability and arrogance. Each fariabel is formulated as follows:

Tabel 1: Operational Definition of Exogenous Variable

Variabel	Explanation	Formula
Indicator of Pressure		
Financial targets	Measured using return on assets (Tiffani & Marfuah, 2015)	$ROA = \frac{Earning\ after\ tax}{Total\ assets}$
Financial stability	Measured using percent of total asset change (Tiffani & Marfuah, 2015)	$ACHANGE = \frac{Tottal\ assets_t - Tottal\ assets_{t-1}}{Total\ assets}$
External pressure	Measured using leverage (Tiffani & Marfuah, 2015)	$LEV = \frac{Total\ Liabilities}{Total\ assets}$
Institutional ownership	Measured using percentage of institutional ownership (Tessa & Harto, 2016)	$OSHIP = \frac{Shares\ owned\ by\ the\ institution}{Outstanding\ shares}$
Indicator of Opportunities		
The number of audit committee members	Measured using number of audit committees (Amaliah et al., 2015)	Total number of audit committees
Nature of industry	Measured using total inventory ratio (Annisya et al., 2016)	$INVENTORY = \frac{Inventory_t}{Sales_t} - \frac{Inventory_{t-1}}{Sales_{t-1}}$
Indicator of Rationalization		
The change of auditors	Measured using change in auditor (Tiffani & Marfuah, 2015)	A dummy variable coded by '1' indicate that there is a change in auditor and coded by '0' otherwise.
Auditor's opinion	Measured using opinion that shown in audit report (Amaliah et al., 2015)	A dummy variable coded by '1' indicate that qualified opinion and coded by '0' otherwise.
Indicator of Capability		
The change of directors	Measured using a change in structure of directors (Annisya et al., 2016)	A dummy variable coded by '1' indicate that there is a change in structure of directors and coded by '0' otherwise.
Proportion of the independent commissioners	Measured using proportion of the board independent commissioner (Indarto & Ghozali, 2016)	$IND = \frac{\text{The number of independent board}}{The\ Total\ of\ number\ commissioner}$
Indicator of Arrogance		
The number of CEO's picture	Measured using number of CEO's picture (Yusof et al., 2015)	Total number of CEO's picture that shown in financial reporting.
CEO duality	Measured using duality of CEO leadership (Yusof et al., 2015)	A dummy variable coded by '1' indicate that there is duality on leadership in a company and coded by '0' otherwise.

Data Collection Technique

Methods of data collection in this study is using documentation method. Documentation is a record of events that have passed (Sugiyono, 2012). Documents may be in the form of writing, drawing, or monumental works of a person. Writing documents are diaries, life histories, stories, biographies, regulations, policies. Documents in the form of images such as photos, live pictures, sketches and others. Documents used as a source of data in this study is the financial statements of manufacturing companies from 2013 to 2015.

Data Analysis Methode

In this research, data is analyzed by performing statistical test of infrensial by using technique of structural equiation modeling (SEM) based varian or known as Partial Least Square (PLS). The first step of analysis is creating a structural model. After then, the model is analyzed by testing the goodness of fit. The goodness of fit testing is used to assess the feasibility of a model. After the goodness of fit testing then we analize the validity of the construct to assess whether the indicators used in the measurement of latent variables are feasible or not. If there are some indicators which are not feasible we should eliminate the indicator from the model, then we must do the analysis from the first steps. After the indicators meet the criteria then we do the hypothesis testing by checking the value of path coefficients and p-value. Last, we do an assessment of the R-square of each variable and overall.

Discussion

The first step of analysis is by creating a structural model. In making a structural model we should determine the direction of causality of latent variables and its indicators. The direction of the construct in this study is reflective, where the direction of the causality leads from the construct to the indicator. The determination process of this reflective indicator is because the construct is not a combination of indicators. The indicators studied are derived from earlier studies which are the indicators that can be exchanged equally or can stand independently. The determination of this reflective construct model is derived from the rule of thumb as described by (Solihin & Ratmono, 2013).

The next step is to analize the goodness of fit model. The goodness of fit model shown that Average path coefficient (APC) and Average R-squared is 0.191 and 0.679 or more that 0,05. It means the model has met all the requirements and the model has been confirmed. After the model meets the requirements of goodness of fit measurement we do an analysis of the construct validity. The analysis of construct validity is done by measuring loading and cross loading factores. In this case, the loading factor value should be more than 0.7. But if the loading factor value ranged from 4 to 8, it can still be tolerated. Besides, each indicators must have p-value less than 0.001. If the loading factor value is less than the requirement then we must eliminate the indicator from its latent variable (Solihin & Ratmono, 2013).

In this study, there is one indicator that does not meet the validity construct measurement criteria. This indicator is leverage. The loading factor of leverage is 0.185 and leverege has p-value more than 0.001. Because leverage does not meet the criteia then we eliminate leverage from the indicator of latent fariable in structural model. Tabel 2 shows the loading and cross loading from the second model (new strucutral model without leverage).

Tabel 2: Combined Loading and Cross Loading

	PRESSURE	OPPYNTY	RATIONAL	CPBLTY	ARROGNCY	FFR	Type (as defined)	SE	P value
ROA	(0.783)	0.094	-0.003	0.021	0.041	0.647	Reflective	0.057	<0.001
ACHANGE	(-0.601)	0.033	-0.078	0.013	0.059	0.442	Reflective	0.058	<0.001
OSHIP	(0.556)	-0.096	-0.079	-0.016	0.006	-0.433	Reflective	0.059	<0.001
AUDSIZE	0.225	(0.674)	-0.127	0.125	0.010	-0.007	Reflective	0.058	<0.001
INVENTORY	-0.225	(0.674)	0.127	-0.125	-0.010	0.007	Reflective	0.058	<0.001
AUDCHANGE	0.176	0.036	(0.717)	-0.177	-0.048	-0.123	Reflective	0.057	<0.001
AUDREPORT	-0.176	-0.036	(0.717)	0.177	0.048	0.123	Reflective	0.057	<0.001
DCHANGE	-0.085	0.082	0.002	(0.696)	-0.067	-0.018	Reflective	0.057	<0.001
IND	0.085	-0.082	-0.002	(0.696)	0.067	0.018	Reflective	0.057	<0.001
CEOPIC	0.075	-0.050	-0.003	0.005	(0.706)	-0.051	Reflective	0.057	<0.001
CEODUAL	-0.075	0.050	0.003	-0.005	(0.706)	0.051	Reflective	0.057	<0.001
FFR	0.000	0.000	0.000	0.000	0.000	(1.000)	Reflective	0.054	<0.001

Sources: Analysis result from warppls software

Hypothesis Testing

The hypothesis testing analysis is applied by checking the value of path coefficients and p-value. The value of path coefficients indicates the direction of influence between variables, while significant influence between variables is indicated by p-value. If p-value is less than 0.001, it means there is significant influence between exogenous and endogenous variables. Otherwise, if p-value is more than 0.001, it means there is no significant effect between exogenous and endogenous variables. The result from the warppls software shows the path coefficients and p-value as follow:

Tabel 3: Output Path Coefficients and P-value

Path Coefficients					
	PRESSURE	OPPRTNTY	RATIONAL	CPBLTY	ARROGNCY
FFR	0.827	-0.018	0.055	0.014	0.040
P-value					
	PRESSURE	OPPRTNTY	RATIONAL	CPBLTY	ARROGNCY
FFR	<0.001	0.390	0.196	0.416	0.266

Sources: Analysis result of warppls software

The Influance of Pressure on FFR

The first hypothesis testing result shown in the table 3 shows that there is positive effect between pressure and fraudulent financial reporting with a significant influance. The result shows when pressure increases, fraudulent financial reporting will also increase. It means that the company will conduct fraudulent financial reporting when it comes to the pressure that comes from financial targets, financial stability and pressure from institutional ownership. The results of this study confirm the previous research that states there is a significant influence from pressure to fraudulent financial reporting (Diany & Ratmono, 2014).

The Influance of Opportunity on FFR

This study found that the opportunity does not significantly affect on fraudulent financial reporting. It means the magnitude of opportunity does not trigger management to conduct fraudulent financial reporting. It is in contrast to the previous study stating that one of the cause management tends to do the fraudulent financial reporting is an opportunity (Skousen et al., 2008). The results of this study indicate that the weak supervision from the audit committee and nature of industry are not a major factor that causes the company to conduct fraudulent financial reporting. This is in line with the study that result the Opportunity have no significant effect on fraudulent financial reporting (Tessa & Harto, 2016).

The Influance of Rationalization on FFR

As shown in table 3, we can see that the change in auditor and audit opinion as an indicator of rationalization does not significantly affect on fraudulent financial reporting. Naturally, continuous audit can be an early warning system to detect fraud (Sofia, 2016). In this case, the change of auditor and audit opinion maybe not be the main indicator of rationalization. It is because only a few companies that change their auditor in observen periode. Beside, the occurrence of fraud begin to know when the auditor finds discrepancy financial statements. Generally, it is shown when the auditor put forward adverse opinions (Francis & Krishnan, 1999). Meanwhile, based on observed data, almost all of the companies observed showed unqualified opinion in their financial statements audited.

The Influance of Capability on FFR

This study found that the capability does not significantly affect on fraudulent financial reporting. It means the change of directors and proportion of the independent commissioners has no significant influance on fraudulent financial reporting or it can not be used as a factor causing fraud. This may be caused by the new board of directors does not show a different performance than the old directors or the new recruitment of directors is not done selectively. This is in line with the study that get the result the change of directors have no significant effect on fraudulent financial reporting (Annisya et all., 2016).

The proportion of the independent commissioners has no significant influance on fraudulent financial reporting or it can not be used as a factor causing fraud. It may be caused by the independent commissioner is not strong enough to determine company policy or supervision conducted by the independent commissioners is not applying optimally. This is in line with previous study that get the result the independent commissioner have no significant effect on fraudulent financial reporting (Tessa & Harto, 2016).

The Influance of Arrogance to FFR

This study found that arrogance does not significantly affect on fraudulent financial reporting. It means the number of CEO's picture and CEO duality has no significant influance on fraudulent financial reporting or it can not be used as a factor causing fraud. This may be caused by only few CEO that put their picture in the financial reporting and there are few CEO duality in manufacturing company.

Conclusions

According to the analysis result above, the empirical evidence suggests that the factor which can lead to fraudulent financial reporting on manufacturing companies listed in the Indonesia stock exchange period 2013 to 2015 is the pressure. While other indicators such as opportunity, rationalization, capability and arrogance are not variables that can be used to measure the occurrence of fraudulent financial reporting or those variables are not the main factor causing the occurrence of FFR. The indicators that can be used as indicators of pressure are financial targets, financial stability ,and institutional ownership.

The results of this study are in line with the previous research states that pressure is a factor affecting FFR (Indarto & Ghozali). This study also confirmed the previous study stating that one of the factors that could lead to FFR is fianancial stability (Apprilia, 2017) and (Tiffani & Marfuah, 2015). As found previously this study provides that institutional ownership is also a factor that can lead to the emergence of FFR (Diany & Ratmono, 2014).

Based on the value of r-square, it can be conclude that the pressure is the domination factor in affecting fraudulent financial reporting. It is seen from the high score of the pressure's r-square is equal to 67.2%. While other factors that affect the occurrence of fraudulent financial reporting outside of the variable studied is 32.8%.

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