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# FINANCIAL STATEMENT FRAUD OF ENERGY SECTOR COMPANIES: ANALYSIS OF THE AFFECTING FACTORS

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## *Abstract*

*This research aims to analyze the influence of Financial Stability, External Pressure, Ineffective Supervision, Change of Auditor, Change of Director, and Frequency of CEO's Picture on Financial Report Fraud. The population is all energy sector companies listed on the Indonesia Stock Exchange for the period 2018 - 2022. The sample selection method was purposive, and the number of observations was found to be 155. Data analysis used Eviews 13 software. The novelty is, to further test variables that have no effect. as a moderating variable. The test results show that financial stability, external pressure, and change of directors influence financial statement fraud. However, ineffective supervision has no effect but is proven to be a moderator. Change of auditor and frequency of CEO photos do not affect financial statement fraud and are not proven to be moderating variables.*

*Keywords: Change In Auditor; Change Of Director; External Pressure; Financial Stability; Frequent Of CEO's Picture; Ineffective Monitoring*

## *Abstrak*

Penelitian ini bertujuan untuk menganalisis pengaruh Stabilitas Keuangan, Tekanan Eksternal, Pengawasan Tidak Efektif, Pergantian Auditor, Pergantian Direktur, dan Frekuensi CEO's Picture terhadap Kecurangan Laporan Keuangan. Populasi adalah seluruh perusahaan sektor energi yang terdaftar di Bursa Efek Indonesia periode 2018-2022.Metode pemilihan Sampel adalah metode purposive sampling,dan ditemukan jumlah observasi sebanyak 155. Analisis data menggunakan regresi data panel dengan software Eviews 13. Kebaruan penelitian ini adalah menguji lebih lanjut variabel-variabel yang tidak berpengaruh. sebagai variabel moderasi. Hasil pengujian menunjukkan bahwa stabilitas keuangan, tekanan eksternal, pergantian direktur berpengaruh terhadap kecurangan laporan keuangan. Namun pengawasan yang tidak efektif tidak berpengaruh namun terbukti menjadi moderator . Pergantian auditor dan frekwensi foto CEO tidak berpengaruh terhadap kecurangan laporan keuangan dan tidak terbukti menjadi variabel moderasi.

Kata kunci: Pengawasan Tidak Efektif; Pergantian Auditor; Pergantian Direktur; Tekanan Eksternal; Stabilitas Keuangan; Seringnya Gambar CEO



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## 1. INTRODUCTION

The much-discussed issue of a recession that will occur in the world in 2023 has been blowing louder recently. It is predicted that 2023 will be a tough year for the Indonesian and global economies. A recession is a condition where a country's economy is deteriorating. A recession or sluggish economic conditions can trigger an increase in cases of financial statement fraud. When a company faces major financial pressure, such as decreasing revenue or increasing costs, company management sometimes feels pressured to find ways to make their financial reports look better. One way that can be done is by committing fraud in the financial reports.

Occupational Fraud 2022: A Report To The Nations 12th Edition published by The Association of Certified Fraud Examiners (ACFE) stated that survey participants were asked to identify the industry of the fraud victim organization. The survey results stated that the industries most affected by the cases in the ACFE research were banking and financial services, government and public administration, and manufacturing (ACFE, 2022)


Figure 1. Occupational Fraud 2022
Source: Occupational Fraud 2022: A Report to The Nations

Theories related to fraud include the Fraud Pentagon. The five elements of the fraud pentagon theory are pressure, opportunity, rationalization, capability, and arrogance. These five elements are reflected in Financial Stability, External Pressure, Ineffective Supervision, Change of Auditor, Change of Director, and Frequency of CEO's Picture.

Research from Himawan & Wijanarti (2020), M. I. Lestari & Henny, (2019), Christian et al (2021), Suryandari & Putra (2022), Faradiza (2019) concluded that financial stability affects financial statement fraud. However, the results are differently shown by research from Rusmana & Tanjung (2020), U. P. Lestari & Jayanti (2021), Putra & Dinarjito (2021), Puspitha & Yasa (2018), Andriani et al (2022), Irwandi et al (2019), Novitasari & Chariri (2019).

Previous research related to the influence of external pressure was conducted by Achmad et al (2022), Hidayah & Saptarini (2020), Himawan & Wijanarti (2020), Rusmana & Tanjung (2020) who concluded that external pressure influences financial statement fraud. However, different results were shown in research conducted by Novita (2019), Koharudin & Januarti (2021), Christian et al (2021), and Rahayu & Riana (2020).



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Research related to ineffective monitoring was carried out by Himawan & Wijanarti (2020), M. I. Lestari & Henny (2019), Suryandari & Putra (2022) which showed the results that ineffective monitoring had a positive effect on financial statement fraud. However, the opposite results were shown by Achmad et al (2022), Hidayah & Saptarini (2020), Rusmana & Tanjung (2020), Faradiza (2019), Aulia Haqq & Budiwitjaksono, (2020).

Research related to changes in auditors that influence financial statement fraud was carried out by Devi et al (2021), Himawan & Wijanarti (2020), and Christian et al (2021). However, the opposite results were shown in research conducted by Agustina & Pratomo (2019), Septriani & Handayani (2018), Sasongko & Wijayantika (2019), Hidayah & Saptarini (2020), M. I. Lestari & Henny (2019), Rusmana & Tanjung (2020).

Research related to change of director conducted by Hidayah & Saptarini (2020), Triyanto (2019), and Christian et al (2021) shows the results that a change of director has a positive effect on financial statement fraud. However, research conducted by Elviani et al (2020), Suryandari & Putra (2022), Khuluqi & Na Separate (2022), Rahayu & Riana (2020), Novitasari & Chariri (2019).

Research related to the Frequency of CEO photos conducted by Aulia Haqq & Budiwitjaksono (2020), and Elviani et al (2020) shows the results of the influence of the frequent number of CEO photos on financial statement fraud. However, different results were shown in research conducted by Ariyanto et al (2021), Fitriyah & Novita (2021), Hidayah & Saptarini, (2020), M. I. Lestari & Henny (2019), Christian et al (2021), Rusmana & Tanjung (2021). 2020).

From the results of previous research, it can be seen that there is a GAP in research results, therefore this research aims to re-examine the influence of Financial Stability, External Pressure, Ineffective Supervision, Change of Auditor, Change of Director, and Frequency of CEO's Picture on Financial Report Fraud. The problem is explained in the form of a question, namely whether Financial Stability, External Pressure, Ineffective Supervision, Change of Auditor, Change of Director, and Frequency of CEO's Picture affect Financial Report Fraud. The novelty of this research is to further test variables that have no effect. as moderating variables, to find out whether these variables are strengthening/weakening variables or only as predictors. There has been no previous research that has done this. Apart from that, the energy sector studied also adds to the novelty of this research, because no previous research has examined this sector. The results of this research are expected to contribute to a deeper understanding of the influence of fraud pentagon theory on financial statement fraud, which will complement existing academic literature by expanding knowledge about fraud mechanisms and strategies in the context of the energy sector. This research can also help formulate recommendations and guidelines for companies to develop more effective internal control mechanisms against potential fraud in financial statements.

## 2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Fraud pentagon theory, developed by Richard Cascarino in 2010, is a theory that is widely known for understanding the factors that cause fraud in financial reporting. This theory identifies five important factors that must be met for fraud to occur in financial reporting, namely pressure (Financial Stability and External Pressure), opportunity (Ineffective Monitoring), rationalization (Change in Auditor), capability (Change of Director), and arrogance (Frequent Number of CEO's pictures).



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Financial statement fraud is the deliberate misrepresentation of a company's financial statements, whether through omission or exaggeration, to create a more positive impression of the company's financial position, performance, and cash flow.

**The Influence of Financial Stability on Financial Statement Fraud**

Good financial stability can provide benefits for companies in encouraging business growth and improving financial performance. However, sometimes too good financial stability can trigger pressure to maintain positive financial performance. This can influence company management to commit fraud in its financial reporting to meet market expectations. This is supported by research conducted by Himawan & Wijanarti (2020), M. I. Lestari & Henny ( 2019), Christian et al (2021), Suryandari & Putra ( 2022), Faradiza ( 2019) showing the results that financial stability influences financial statement fraud.

H1: There is an influence of financial stability on financial statement fraud.

**The Influence of External Pressure on Financial Statement Fraud**

External pressure can trigger company management to manipulate financial reports to meet the expectations or desires of the parties exerting pressure. This is supported by research by Achmad, Hapsari, and Pamungkas (2022), Hidayah and Saptarini (2020), Himawan & Wijanarti (2020), and Rusmana and Tanjung (2020) show that external pressure influences financial statements fraud.

H2: There is an influence of External Pressure on Financial Statement Fraud.

**The Effect of Ineffective Monitoring on Financial Statement Fraud**

Ineffective internal monitoring of a company can create loopholes and opportunities for unscrupulous individuals or groups to manipulate, misuse, or steal. This is supported by research conducted by Himawan and Wijanarti (2020), M. I. Lestari and Henny (2019), and Suryandari and Putra (2022) showing that ineffective monitoring influences financial statement fraud.

H3: There is an influence of Ineffective Monitoring on financial statement fraud.

**The Effect of Change in Auditor on Financial Statement Fraud**

A change in auditor can provide an opportunity for a company to commit financial statement fraud, especially if the new auditor does not examine the financial statements carefully and does not understand the company's characteristics well. This can allow companies to manipulate financial reports without being detected. This is supported by research conducted by Devi et al. (2021), Himawan and Wijanarti (2020), and Christian et al. (2021) found that a change in auditor had a significant effect on financial statement fraud.

H4: There is an influence of Change in auditors on financial statement fraud.

**The Effect of Change of Director on Financial Statement Fraud**

Change in directors is the handover of the duties and authority of old directors to new directors to maintain the growth of a company and also carry out refreshments in a company. New directors who have high integrity and care about the quality of financial reports can increase supervision and monitoring of the company's business processes, thereby reducing the risk of financial statement fraud. This is supported by research



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conducted by Hidayah and Saptarini (2020), Triyanto (2019), and Christian et al. (2021) shows that a change of director affects financial statement fraud.
H5: There is an influence of Change in Director on financial statement fraud.

**The Influence of Frequent Number of CEO's Pictures on Financial Statement Fraud**
The frequency with which the CEO's photo appears in this annual report can be seen as a way for the CEO to gain fame as stated by Horwarth (2011) that currently CEOs tend to act like celebrities in the company concerned.
This statement is supported by research conducted by Aulia Haqq and Budiwitjaksono (2020), and Elviani, Ali, and Kurniawan (2020), that the frequent number of CEO pictures affects financial statement fraud.
H6: There is an influence of the Frequent Number of CEO's picture on financial statement fraud.

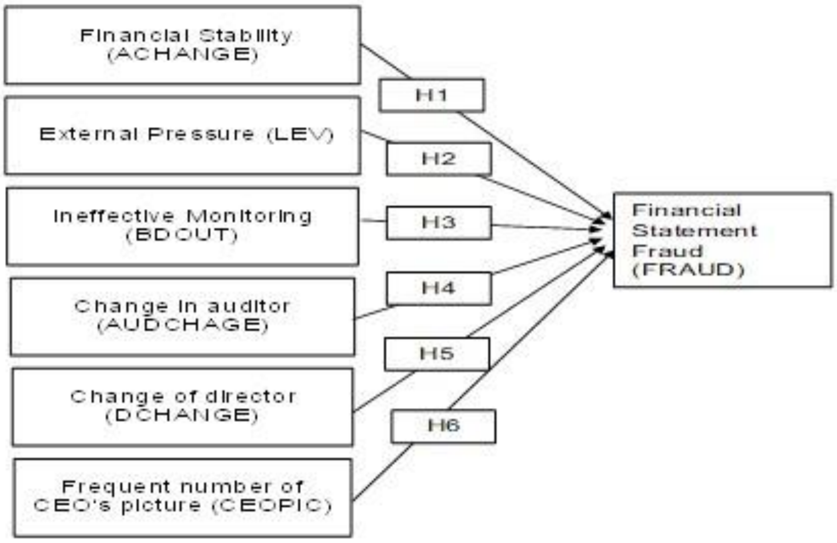


Figure 2. Framework

## 3. RESEARCH METHOD

The population is 80 energy sector companies listed on the Indonesia Stock Exchange (BEI) in 2018-2022. Sample selection used a purposive sampling technique for energy sector companies listed on the Indonesia Stock Exchange (BEI) for the 2018-2022 research period. The steps for selecting samples are as follows:

Table 1 Sample Selection Stages with Criteria

| Population and Sample | No. | Description | Not Fulfilling | Fulfilling |
|---|---|---|---|---|
| Population | | Energy sector companies listed on the Indonesian Stock Exchange (BEI) | 0 | 80 |



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| | | | | |
|---|---|---|---|---|
| Sample Criteria | 1 | Energy sector companies listed on the IDX for the 2018-2022 research period | 0 | 80 |
| | 2 | Energy sector companies presenting financial reports for the 2018-2022 research period | 41 | 39 |
| | 3 | Energy sector companies that have complete data regarding research variables needed for research during the 2018-2022 period. | 8 | 31 |
| Observation | Total Observation | | 31 x 5 | 155 |

Source: Secondary data processed

Table 2 Variable Operationalization

| No. | Variable | Measurement |
|---|---|---|
| 1. | *Financial Statement Fraud* (FRAUD) | F-Score = *Accrual Quality* + *Financial Performance*<br>*Accrual Quality* = $\frac{(\Delta WC + \Delta NCO + \Delta FIN)}{\text{Average Total Asset}}$<br>*Financial Performance = Change in receivable+Change in inventoriesChange in cash sales+Changes in earnings* |
| 2. | *Financial stability* (ACHANGE) | ACHANGE = $\frac{\text{Total aset (t) – Total aset (t-1)}}{\text{Total aset (t)}}$ |
| 3. | *External pressure* (LEV) | LEV = $\frac{\text{Total liabilities}}{\text{Total asset}}$ |
| 4. | *Ineffective monitoring* (BDOUT) | BDOUT = $\frac{\text{Independent Commissioner}}{\text{Number of Commissioners}}$ |
| 5. | *Change in Auditor* AUDCHANGE | AUDCHANGE = Change of auditors in a company in a certain period |
| 6. | *Change of Director* (DCHANGE) | DCHANGE = Change of board of directors |
| 7. | *Frequent number of CEO Picture* (CEOPIC) | CEOPIC = The frequency with which the CEO's photo appears in the Company's annual report |

The technique or method used in collecting data in this research was carried out by reviewing documents in the form of financial reports and annual reports of energy companies for the period 2018 - 2022 which are listed on the Indonesia Stock Exchange (BEI). Data was obtained from the Indonesian Stock Exchange (BEI) website, namely, www.idx.co.id and the company website.

The technical analysis consists of the Model Feasibility Test (Chow, Hausman, Lagrange Test). Classical Assumption Test (normality test, multicollinearity test, and heteroscedasticity test), Hypothesis Test, and Moderated Regression Analysis (MRA) test



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to determine whether the variable strengthens or weakens the influence of the independent variable on the dependent variable.

## 4. ANALYSIS AND RESULT

Table 3 Results of Panel Data Regression Model Selection

| Model Selection Test | Model Testing Results | Conclusion |
|---|---|---|
| Chow Test<br>$H_0$: CEM<br>$H_1$: FEM | Chi-square statistic = 15,024<br>Chi-square kritis = 43,775<br>Probability = 09896 | CEM |
| Hausman Test<br>$H_0$: REM<br>$H_1$: FEM | Chi square statistic = 1,185<br>Chi-square kritis = 12,592<br>Probability = 0,977 | REM |
| Lagrange Multiplier Test<br>$H_0$: CEM<br>$H_1$: REM | LM statistic = 29,432<br>Chi-square kritis = 12,592<br>Probability = 0,000 | REM |

From the table above it can be concluded that the selected model is REM

**Classic assumption test**
**Normality test**
The results of the normality test showed that the data was not normal, therefore data transformation was carried out. The test results after transformation are as follows

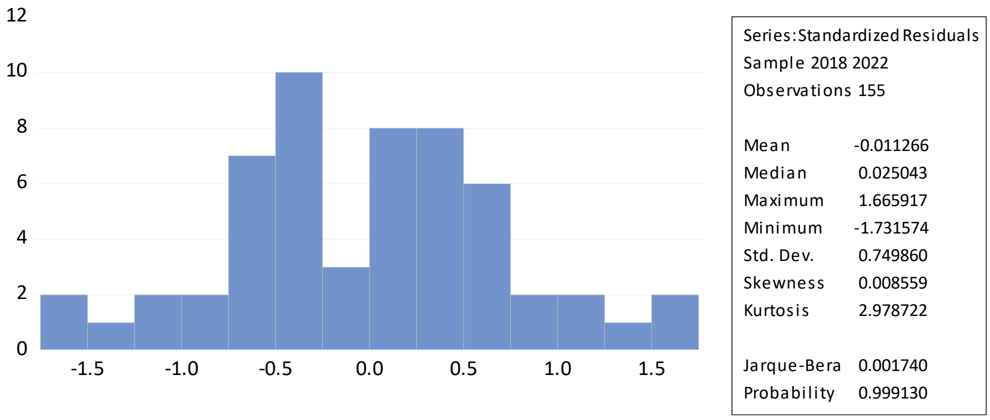


Figure 3 Normality test results after data transformation
Source: Data processed using eviews 13

Based on the image above, it can be concluded that the Probability value is 0.999130 > 0.05, which means the data can be said to be Normal.



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**Multicollinearity Test**

Table 4 Multicollinearity Test Results

| | D(ACHANGE) | D(LOG(LEV)) | D(BDOUT) | D(AUDCHANGE) | D(DCHANGE | D(CEOPIC) |
|---|---|---|---|---|---|---|
| D(ACHANGE) | 1.000000 | -0.398294 | -0.047530 | 0.069937 | -0.010650 | 0.117598 |
| D(LOG(LEV)) | -0.398294 | 1.000000 | -0.070563 | -0.143307 | -0.232734 | -0.025650 |
| D(BDOUT) | -0.047530 | -0.070563 | 1.000000 | -0.100139 | 0.130930 | -0.064642 |
| D(AUDCHANGE) | 0.069937 | -0.143307 | -0.100139 | 1.000000 | 0.044446 | -0.110169 |
| D(DCHANGE) | -0.010650 | -0.232734 | 0.130930 | 0.044446 | 1.000000 | 0.042026 |
| D(CEOPIC) | 0.117598 | -0.025650 | -0.064642 | -0.110169 | 0.042026 | 1.000000 |

Based on the eviews output results above, there is no correlation coefficient between independent variables that is more than 0.85, so the model does not contain multicollinearity.

**Heteroscedasticity Test**

Table 5 Heteroscedasticity Test Results

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.497621 | 0.060124 | 8.276.539 | 0.0000 |
| D(ACHANGE) | -0.177019 | 0.204681 | -0.864855 | 0.3889 |
| D(LOG(LEV)) | -0.095335 | 0.204814 | -0.465473 | 0.6425 |
| D(BDOUT) | 0.009104 | 0.866630 | 0.010505 | 0.9916 |
| D(AUDCHANGE) | 0.132907 | 0.119277 | 1.114.268 | 0.2674 |
| D(DCHANGE) | -0.069686 | 0.087786 | -0.793811 | 0.4289 |
| D(CEOPIC) | 0.012690 | 0.020882 | 0.607691 | 0.5446 |

Based on the eviews output results above, the t-statistical probability value of the six independent variables is greater than alpha (0.05) or not statistically significant so it can be concluded that there is no heteroscedasticity problem in the model.

**Hypothesis testing**

Table 6 Random Effect Model (REM) Test Results

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.218816 | 0.159200 | 1.374.473 | 0.1720 |
| D(ACHANGE) | -1.201.871 | 0.578084 | -2.079.059 | 0.0399 |
| D(LOG(LEV)) | -1.376.489 | 0.543702 | -2.531.698 | 0.0127 |
| D(BDOUT) | 2.262.586 | 2.309.184 | 0.979821 | 0.3292 |
| D(AUDCHANGE) | 0.040677 | 0.322188 | 0.126252 | 0.8998 |
| D(DCHANGE) | -0.623872 | 0.235148 | -2.653.104 | 0.0091 |
| D(CEOPIC) | 0.033855 | 0.055466 | 0.610381 | 0.5428 |
| R-squared | 0.244610 | | | |
| Adjusted R-squared | 0.184974 | | | |

The resulting Random Effect Model (REM) shows that the variables financial



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stability (ACHANGE), external pressure (LEV), and change of director (DCHANGE) have an influence on financial statement fraud (FRAUD) while the variables ineffective monitoring (BDOUT), change in auditor ( AUDCHANGE), and frequent number of CEO's picture (CEOPIC) have no effect on financial statement fraud (FRAUD). The coefficient of determination or R2 value is 0.244610. This can be interpreted that financial stability (ACHANGE), external pressure (LEV), ineffective monitoring (BDOUT), change in auditor (AUDCHANGE), change in director (DCHANGE), and frequent number of CEO picture (CEOPIC) can explain 24, 46% change in financial statement fraud (FRAUD) for companies operating in the energy sector.

## MRA Test Results

Table 7 Moderating Regression Analysis (MRA) Test Results

| Moderating Variable | Equatiom | Variabel Bebas | | | | | |
|---|---|---|---|---|---|---|---|
| | | Financial Stability (ACHANGE ) | | Eksternal Pressure (LEV) | | Change in Director (DCHANGE) | |
| | | Variabel | Probability | Variabel | Probability | Variabel | Probability |
| INEFFECTIVE MONITORING | Equatiom1 | C | 0.0489 | C | 0.9042 | C | 0.0109 |
| | | ACHANGE | 0.0460 | LEV | 0.0272 | DCHANGE | 0.3927 |
| | Equation 2 | C | 0.2427 | C | 0.0250 | C | 0.3932 |
| | | ACHANGE | 0.0795 | LEV | 0.0307 | DCHANGE | 0.3375 |
| | | BDOUT | 0.0059 | BDOUT | 0.0040 | BDOUT | 0.0081 |
| | Equatiom3 | C | 0.1110 | C | 0.8323 | C | 0.0358 |
| | | ACHANGE | 0.0000 | LEV | 0.2759 | DCHANGE | 0.0568 |
| | | BDOUT | 0.0005 | BDOUT | 0.7378 | BDOUT | 0.0002 |
| | | ACBDOUT | 0.0000 | LEVBDOUT | 0.0100 | DCBDOUT | 0.0169 |
| | | | | | | | |
| CHANGE IN AUDITOR | Equatiom1 | C | 0.0489 | C | 0.9042 | C | 0.0109 |
| | | ACHANGE | 0.0460 | LEV | 0.0272 | DCHANGE | 0.3927 |
| | Equation 2 | C | 0.0749 | C | 0.9813 | C | 0.0189 |
| | | ACHANGE | 0.0490 | LEV | 0.0088 | DCHANGE | 0.4604 |
| | | AUDCHANGE | 0.4480 | AUDCHANGE | 0.3349 | AUDCHANGE | 0.4589 |
| | Equatiom3 | C | 0.1587 | C | 0.7757 | C | 0.0022 |
| | | ACHANGE | 0.0454 | LEV | 0.0018 | DCHANGE | 0.3756 |
| | | AUDCHANGE | 0.4613 | AUDCHANGE | 0.7596 | AUDCHANGE | 0.5559 |
| | | ACAUD | 0.8445 | LEVAUD | 0.2902 | DCAUD | 0.9552 |
| | | | | | | | |
| FREQUENT NUMBER OF CEO | Equatiom1 | C | 0.0489 | C | 0.9042 | C | 0.0109 |
| | | ACHANGE | 0.0460 | LEV | 0.0272 | DCHANGE | 0.3927 |
| | Equation 2 | C | 0.1368 | C | 0.9267 | C | 0.0311 |
| | | ACHANGE | 0.0535 | LEV | 0.0031 | DCHANGE | 0.3164 |
| | | CEOPIC | 0.8676 | DCPIC | 0.4645 | CEOPIC | 0.8566 |
| | Equatiom3 | C | 0.1408 | C | 0.9368 | C | 0.1809 |
| | | ACHANGE | 0.3033 | LEV | 0.0550 | DCHANGE | 0.8282 |
| | | CEOPIC | 0.9131 | DCPIC | 0.4932 | CEOPIC | 0.7399 |
| | | ACPIC | 0.9416 | LEVPIC | 0.9635 | DCPIC | 0.7202 |

## Ineffective Monitoring

### *Financial Stability Against Financial Statement Fraud*

Equation 1 is significant, equation 2 is significant, and equation 3 is significant. Conclusion Ineffective Monitoring is QUASI moderated. Adjusted r square equation 1 = 0.017281 < Adjusted r square equation 2 = 0.054860, meaning that Ineffective Monitoring strengthens the influence of Financial Stability on Financial Statement Fraud



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***External Pressure on Financial Statement Fraud***

Equation 1 is significant, equation 2 is significant, and equation 3 is significant. Conclusion ineffective monitoring is quasi moderated Adjusted r square equation 1 = 0.025138 < Adjusted r square equation 2 = 0.066678, meaning that it strengthens the influence of external pressure on financial statement fraud

***Change of director against financial statement fraud***

equation 1 is significant, equation 2 is significant, and equation 3 is significant. the conclusion is that ineffective monitoring is quasi moderated. adjusted r square equation 1 = -0.001726< adjusted r square equation 2 = 0.039318, meaning strengthening the influence of external pressure on financial statement fraud

**Change of Auditor**

Equations 2 and 3 for both Financial Stability, External Pressure and Director Change are not significant, the conclusion is that auditor change is not a moderating variable (does not strengthen or weaken) and is a moderating predictor.

**Frequent Number Of Ceos**

Equations 2 and 3 for both Financial Stability, External Pressure and Director Change are not significant, the conclusion is that auditor change is not a moderating variable (does not strengthen or weaken) and is a moderating predictor

***The Influence of Financial Stability on Financial Statement Fraud***

When a company's financial stability declines, it will encourage individuals and entities to commit fraud in order to maintain the company's financial stability. One example, at the start of the Covid-19 pandemic in 2020, was that energy sector companies came under considerable pressure due to the lockdown policy implemented by all countries in the world. The results of this research support the fraud pentagon theory where energy companies will maximize efforts to focus on operational excellence, productivity, increasing efficiency in order to maintain a solid financial position amidst the difficult situation of the Covid-19 pandemic. This is in line with research conducted by Himawan & Wijanarti (2020) Faradiza (2019) Lestari & Henny (2019), Suryandari & Putra, (2022). Christian et al. (2021).

***The Influence of External Pressure on Financial Statement Fraud***

The results of research on the external pressure variable explain that a company's debt ratio can be an indication of potential financial statement fraud. Companies that have debt with large ratios or in large amounts and are continuously incurring debt will logically have the potential to commit financial statement fraud in order to satisfy investors' expectations and to present good financial reports so that in the future the company can continue to receive a flow of funds for the sake of the company's sustainability. . Interested parties will of course consider various factors that can influence their decisions in providing loans or choosing to invest in a company. They tend to approve loan applications from companies that have a strong reputation and good financial reports, even though they have high financial risks with high levels of leverage. This is supported by research by Achmad, Hapsari, and Pamungkas (2022), Hidayah and Saptarini (2020), Himawan & Wijanarti (2020) and Rusmana and Tanjung (2020) which shows that external pressure results have an influence on financial statement fraud.



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***The Effect of Ineffective Monitoring on Financial Statement Fraud***

The presence of independent commissioners in a company is to improve company performance. However, if the independent board of commissioners is involved in intervention, this could cause the supervision carried out to not be objective. This means that whatever the ratio of the number of independent commissioners compared to the number of commissioners in a company, it has no effect on the potential for fraudulent financial statements in energy companies.

The results of this research are supported by research conducted by Wahyuni & Budiwitjaksono (2017) in Aulia Haqq & Budiwitjaksono (2020).

***The Effect of Change in Auditor on Financial Statement Fraud***

The effect of change in auditor on financial statement fraud as stated in the fraud pentagon theory is due to indications of a change in external auditor which was carried out with the aim of covering up traces of fraud committed by the company or manipulation carried out in the financial statements n company. So, with a change of auditor, the possibility of detecting financial statement fraud is smaller. However, changing public accountants is a factor that is difficult to measure to detect fraudulent financial reporting. So, no matter how often external auditors change in a company, it does not affect the potential for fraudulent financial statements. The reason behind changing auditors in public companies is not to eliminate evidence of fraud that has been discovered by previous auditors, but because the company complies with the provisions stipulated in Government Regulation Number 20 of 2015 concerning Public Accounting Practices article 11 paragraph 1. This is in line with research conducted by Christian et al., (2021) Devi et al., (2021) Himawan & Wijanarti (2020).

***The Effect of Change of Director on Financial Statement Fraud***

The change of directors is a risk factor that arises, namely that the company will be indicated as opening up opportunities for fraud, for example, it is indicated that there are certain political interests in replacing the previous board of directors. The possibility of fraud occurring during a change of directors could occur if the newly elected directors have other interests that are supported or needed by the board of directors to carry out their efforts to commit fraud.

However, the change of directors can be influenced by many factors, not only because the performance of the old directors is indicated to be fraudulent or because there are other agendas from the board of directors, but it can also happen because they are appointed to the board of commissioners, assigned to another company, death or other factors. However, in energy companies, changes in directors have been proven to influence indications of financial statement fraud. This is supported by research conducted by Hidayah and Saptarini (2020), Triyanto (2019), and Christian et al. (2021).

***The Influence of Frequent Number of CEO's Picture on Financial Statement Fraud***

Basically, the nature of arrogance or feeling of having power, makes the CEO think that all internal controls do not apply to him because he has a high position. Because it is often displayed in annual reports, a CEO has his own concentration on creating a good image about the company he leads and about his own popularity, which is a characteristic of narcissistic traits. In the fraud pentagon theory, it is explained that a CEO who



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considers himself superior to others and considers the law does not apply to him can influence the occurrence of financial statement fraud. The results of this research on energy companies are supported by research conducted by Ariyanto et al., (2021) Christian et al., (2021) Fitriyah & Novita (2021) Hidayah & Saptarini (2020) and Lestari & Henny (2019).

## 5. CONCLUSION & RECOMMENDATION

Financial stability influences financial statement fraud. External pressure influences financial statement fraud. Ineffective monitoring has no effect on financial statement fraud. change in auditor has no effect on financial statement fraud. Change in director has an effect on financial statement fraud. Frequent number of CEO picture has no effect on financial statement fraud

The theoretical implications of the research can contribute to expanding understanding of the role of the pentagon theory of fraud theory as a factor influencing fraud in financial reports. The practical implications of the results of this research are that companies can strengthen employee training and development efforts related to knowledge and skills in detecting financial statement fraud. They can provide more intensive training to internal audit teams, accountants and other related personnel to increase their understanding of the signs of fraud and detection methods. This increase in competency can strengthen the company's ability to face the risk of financial statement fraud. In addition, the results of this research can be used as a basis for developing stricter regulations and rules related to financial reporting for companies listed on the Indonesia Stock Exchange (BEI), especially in the energy sector. This can encourage increased corporate transparency and ensure compliance with the principles of good corporate governance. The contribution of this research also has an impact on investors. The results of this research can be used as a reference in conducting fundamental analysis of companies operating in the energy sector and listed on the IDX. This allows investors to make smarter investment decisions and reduce the risk of loss.

This research still has limitations, namely the number of samples in this research is still limited to only companies operating in the energy sector. The variables used are still limited. Namely, only 6 proxy variables are used for measurement, namely financial stability, external pressure, ineffective monitoring, change in auditor, change of director, and frequent number of CEO's pictures.

The suggestions for further research are to add research samples to companies operating in other sectors, using other proxies that are more diverse than the pentagon theory fraud elements in researching fraud detection can also add supporting variables to get better results.

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