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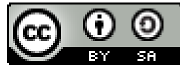

Fraud Triangle Elements, Financial Distress and Financial Statement Fraud by Transportation Companies in Indonesia

Titik Inayati[1,*], Maqbulla Arochman[2], Kholidiah[3]
Universitas Wijaya Kusuma Surabaya, Indonesia[1]
Universitas Wijaya Kusuma Surabaya, Indonesia[2]
Universitas Wijaya Kusuma Surabaya, Indonesia[3]
Corresponding Email: titikinayati@uwks.ac.id*

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Abstract

This research was conducted after the Covid 19 pandemic, when the growth of transportation and logistics companies experienced a very drastic decline due to large-scale social restrictions. After Covid-19, transportation and logistics companies experienced growth of 25.81% in the 2021-2022 period. Several previous incidents related to fraudulent financial reporting in a transportation company raised concerns among investors that fraudulent financial reporting efforts would result in the company's bankruptcy. The Fraud Triangle Theory describes three conditions that cause fraudulent behavior: pressure, opportunity, and rationalization. This type of research uses a quantitative method by looking for the influence of dependent, independent and moderating variables. The population in this study were 31 transportation and logistics companies listed on the Indonesia Stock Exchange in 2020-2022. The nonprobability sampling technique used the purposive sampling technique. The sample was 19 transportation and logistics sector companies listed on the Indonesia Stock Exchange, so that the data processed was 19 companies in 3 years, resulting in 57 samples. The data processing analysis tool used Smart PLS 3.0. The results of the study indicate (1) rationalization does not affect financial statement fraud, (2) pressure does not affect Financial Distress, (3) Opportunity affects Financial Distress, (4) pressure and opportunity do not affect Financial Distress. Statement Fraud is moderated by Financial Distress, (5) Opportunity affects Financial Statement Fraud (6) Financial Distress has no effect on Financial Statement Fraud. This study contributes to investors in making investment decisions and developing the science of Financial Management, related to financial distress, the fraud triangles theory and financial statement fraud.

Keywords: Rationalizatin, Pressure, Opportunity, Finansial Distress, Financial Statement Fraud

Introduction

Following the Covid-19 pandemic, economic growth is rebounding, particularly in the transportation and logistics sector. The Central Statistics Agency (BPS) reported a significant 5.72% growth in this sector in the third quarter of 2022 compared to 2021. The business world within this sector saw a remarkable 25.81% growth in the same period, surpassing all other sectors. This sharp rebound follows a steep decline during the pandemic, where the sector contracted by 15.4% throughout 2020.

The sector's strong recovery has attracted investor interest, despite ongoing public transportation concerns. However, this push for growth raises issues about potential financial statement fraud. While management is motivated to achieve financial targets set by the board of directors, empirical evidence suggests that these targets can influence financial distress and fraudulent reporting. Yet, it's important to note that not all financial targets necessarily lead to financial statement fraud.

Sources and related contentThe research results show that there are 10 companies that are threatened with financial distress during the Covid-19 period and during the economic recovery period there are still 9 transportation companies that are threatened with financial distress (Titik Inayati & Maqbula A, 2022). Currently, companies in the transportation and logistics sector are trying to recover in an effort to achieve the targets set by the company and meet shareholder requests. Shareholders are concerned about an incident in the past, where one of the government-owned transportation companies manipulated financial reports. In fact, for investors, financial reports are parameters used to describe the condition of their financial performance (Kasmir, 2010).

Research shows a significant increase in the level of financial difficulties among businesses due to this pandemic (Pane et al., 2022; Nafisamuna & Nurfauziah, 2022; Citarayani, 2024; Nurrahmi, 2023). The impact of COVID-19 on financial hardship has been observed in various sectors, including transportation (Pane et al., 2022), food and beverage (Nafisamuna & Nurfauziah, 2022), retail (Farida et al., 2022), energy (Nurrahmi, 2023), and manufacturing (Handayati et al., 2022).

Factors influencing financial distress during the COVID-19 pandemic have been explored in research, with managerial ownership, company size, liquidity, and profitability identified as key determinants (Mevania et al., 2022). Additionally, corporate debt levels and institutional differences have been linked to a higher risk of bankruptcy and financial difficulties during the pandemic (Mulyaningsih, 2023). This pandemic has exacerbated the number of companies experiencing financial difficulties globally, thereby impacting businesses in various countries (Tran et al., 2023).

Furthermore, the relationship between financial difficulties and other variables has been extensively researched. Research results show that financial distress is related to tax avoidance (Khan & Nawaz, 2023), earnings management (Fajriati, 2023), and the impact of financial ratios and macroeconomic conditions (Habibi, 2022). Financial literacy, financial behavior,

religiosity, and risk were also found to influence the level of financial difficulty (Maidani et al., 2023).

One of the causes of financial distress is fraud by changing financial reports.PT Garuda Indonesia's financial report recorded a net profit of USD 809.85 thousand, even though in 2017 the company experienced a loss of USD 216.5 million. This report caused controversy and was considered not in accordance with Financial Accounting Standards (FAS). Another case of suspected fraud occurred at PT KAI, where in 2016 there were indications of manipulation of financial report data by recording profits of billions of rupiah, even though in reality it suffered a loss of 63 billion rupiah (Bambang, 2006).

To prevent financial fraud, companies can implement financial supervision through effective monitoring, measurement, and improvement of financial reporting processes. The Fraud Triangle theory outlines three conditions leading to fraudulent behavior: pressure, opportunity, and rationalization. Research on the Fraud Triangle has produced mixed results, with some studies indicating that monitoring doesn't effectively deter financial statement fraud. Safiq & Seles (2019) investigated how external pressure, financial targets, and financial distress contribute to fraudulent financial reporting. Conversely, Purnama & Astika (2022) found that while pressure influences the likelihood of fraud, financial targets and distress do not.

Fraudulent financial reporting has detrimental effects on a company's reputation, value, and stakeholder trust. Despite some studies suggesting a decrease in financial statement fraud during the pandemic, other research indicates an increase in fraudulent activities, particularly in sectors like hotels. This highlights the need for continued vigilance and improved fraud prevention measures in financial reporting.

The characteristics of companies involved in financial statement fraud have been widely discussed in the literature, often linked to the concept of the fraud triangle (Hogan et al., 2008). Factors such as corporate governance have also been studied in the context of financial statement fraud during the COVID-19 pandemic, highlighting the importance of governance mechanisms in mitigating fraudulent activities (Arum et al., 2023). In addition, the fraud diamond theory has been used to analyze the influence of various factors on financial statement fraud, emphasizing elements such as pressure and rationalization (Annisa & Halmawati, 2020; Yesiariani & Rahayu, 2017).

Fraud detection methods during the pandemic have evolved, with the application of advanced technologies such as recurrent neural networks (Bandyopadhyay & Dutta, 2020). The role of auditors in detecting financial statement fraud has been the subject of scrutiny, especially in cases such as Wirecard and Lookers, which underscores the importance of a strong audit process (Awolowo & Garrow, 2022). In addition, the influence of corporate governance and company size on financial statement fraud has been explored, emphasizing the need for an effective governance structure (Kurnia, 2024).

Financial statement fraud remains a significant concern, and research highlights the deliberate misrepresentation of financial information to deceive stakeholders (Albrecht et al., 2014). The impact of the level of financial health in detecting indications of fraud in certain

sectors such as transportation has also been investigated, emphasizing the relationship between financial stability and fraudulent activity (Hanjaya & Fettry, 2021). Overall, research on financial statement fraud provides valuable insight into the dynamics of fraudulent practices and the steps required to prevent and detect such activity.

Auditors play a crucial role in preventing financial statement fraud by identifying potential fraudulent activities within companies. In 2002, the American Institute of Certified Public Accounts (AICPA) issued Statement on Auditing Standards (SAS) No. 99 to enhance auditors' effectiveness in detecting financial fraud.

In 1953, Donald Cressey developed the "Fraud Triangle" theory, which identifies three factors that contribute to fraudulent behavior: pressure, opportunity, and rationalization. Researchers like Susanti (2014) have further explored the Fraud Triangle theory in the context of detecting fraudulent financial statements. This theory provides a valuable framework for understanding the motivations behind fraudulent acts and can assist auditors in their efforts to prevent and detect financial statement fraud.

Sources and related contentThe COVID-19 pandemic has had a significant impact on the financial health of the transportation sector, pushing many companies into financial distress. Even though the sector is starting to recover, concerns about fraudulent financial reporting remain high due to past events. Previous research has explored the triangle theory of fraud, financial difficulties, Financial Statement Fraud in various contexts. However, there are still gaps in understanding the specific dynamics of the relationships between variables. So, the aim of this research is to test and analyze:" (1) the effect of rationalization on financial statement fraud, (2) the effect of pressure on Financial Distress, (3) the effect of Opportunity on Financial Distress, (4) the effect of pressure and opportunity on Financial Report Fraud which is moderated by Financial Distress, (5) The Influence of Opportunity on Financial Statement Fraud. (6) Financial Distress influences Financial Statement Fraud".

Literature Review

Agency theory, initially proposed by Jensen and Meckling (1976), explains a contractual relationship involving one or more individuals, including a principal (shareholder) who delegates decision-making authority to an agent (manager) to perform services on their behalf. This contract often creates a conflict of interest between the principal and the agent, arising from the possibility of the agent not acting in the principal's best interests, such as maximizing profits. Other agency problems exist, including the principal's preference for cash dividend payments over share reinvestment, while the agent prefers the principal to reinvest (Mursalim, 2011).

Agency theory, a fundamental concept in corporate governance and management, focuses on the relationship between principals (shareholders) and agents (management) within an organization. The theory aims to align the interests of both parties and mitigate conflicts that may arise due to divergent goals. The core premise of agency theory is that agents may act in

their self-interest, leading to agency problems that can impact organizational performance and integrity (Pramana et al., 2019), (Hendra et al., 2018); (Arum, 2024); (Aghghaleh & Mohamed, 2014).

In the context of fraud prevention and detection, agency theory plays a crucial role in understanding the dynamics that may lead to fraudulent activities within an organization. By examining the incentives, accountability structures, and relationships between principals and agents, agency theory provides insights into how fraud risks can be managed and mitigated ((Aghghaleh & Mohamed, 2014);(Omankhanlen et al., 2020). For instance, the application of agency theory in addressing financial fraud involves establishing robust accountability mechanisms through contractual relationships that bind agents and principals to ethical and legal standards (Aghghaleh & Mohamed, 2014).

Moreover, agency theory has been integrated into various studies to explore its implications for fraud risk factors, fraud occurrence likelihood, and the effectiveness of fraud prevention mechanisms such as audit committees (Arum, 2024; (Said et al., 2017). By incorporating agency theory into fraud prevention strategies, organizations can enhance transparency, accountability, and governance practices to deter fraudulent behaviors (Omankhanlen et al., 2020; Said et al., 2017).

The Association of Certified Fraud Examiners (ACFE, 2020) defines fraud as "an unlawful act committed intentionally for a specific purpose (manipulating or providing false reports to another party) carried out by individuals from within or outside an organization to gain benefits either directly or indirectly." Meanwhile, the Financial Audit Agency states that fraud is an act that involves intent, benefits oneself or others, "deception, concealment or embezzlement, and abuse of authority with the aim of obtaining "illegal profits in the form of money, goods/property, services, and not paying for services rendered by one or more government officials, employees, or third parties.

The National Commission on Fraudulent Financial Reporting (AICPA, 1987) defines fraudulent financial reporting as "intentional or reckless conduct, whether by act or omission, that results in materially misleading financial statements." Fraudulent financial reporting involves various factors and requires deliberate deviation from company records. Auditing Standards (SA) Section 136 defines financial statement fraud as the intentional misstatement or omission of amounts or disclosures in financial statements to deceive financial statement users, resulting in financial statements that do not conform in all material respects to generally accepted accounting principles (Kusumosari & Solikhah, 2020). "Earnings management, a common manipulation of financial reports by management as a short-term solution, aims to maintain investor confidence in the company's performance" (Septriyani & Handayani, 2018).

Financial statement fraud is a significant concern in the corporate world, with several theories aiming to explain its occurrence. The Fraud Triangle theory, developed based on Cressey's work, posits that financial statement fraud is driven by perceived pressure, opportunity, and rationalization ("Financial Statement Fraud and the Failure of Corporate Financial Statement Fraud Prediction", 2021). This theory suggests that individuals may engage in fraudulent activities when facing financial distress to enhance performance and avoid

negative consequences (Saputra, 2024). Studies have supported the Fraud Triangle theory in elucidating financial statement fraud phenomena (Yusrianti et al., 2020; (Tiffani & Marfuah, 2015). Additionally, the Fraud Diamond theory emphasizes that pressure factors can lead to fraudulent financial statements ((Nugroho et al., 2018).

Furthermore, the Fraud Pentagon theory, introduced by Crowe, expands on the Fraud Triangle by incorporating elements like rationalization and capability, which can influence financial statement fraud ((Ayuningtyas et al., 2021); (Antawirya et al., 2019). Research has demonstrated that elements in the Fraud Pentagon model can effectively identify fraudulent financial statements (Antawirya et al., 2019). Moreover, the Fraud Hexagon theory integrates additional elements such as arrogance and collusion, which can impact the incidence of financial statement fraud (Khamainy et al., 2022; (Raihan, 2024). Studies have explored the predictive relevance of the Fraud Hexagon theory in detecting financial statement fraud (Khamainy et al., 2022).

In summary, these theories offer valuable frameworks for comprehending the motivations and factors contributing to financial statement fraud. By considering elements like pressure, opportunity, rationalization, capability, arrogance, and collusion, researchers and stakeholders can enhance their ability to detect and prevent fraudulent activities in financial reporting

Fraud is a misrepresentation carried out to hide facts with the aim of influencing someone's decision. Cressey revealed that fraud occurs when the perpetrator has financial problems that cannot be told to other people. Donald Cressey, in 1953, discovered a theory of fraud known as the " *Fraud Triangle* " (Susanti 2014). Fraud Theory Triangle explains that there are three conditions that make someone commit a crime (fraud), namely *pressure , opportunity , and Rationalization* . The existence of strong pressure on a need, coupled with opportunities that arise and efforts to find justification for what is done, is the cause of *fraud* .

Financial distress is a decline in financial conditions that precedes bankruptcy. This condition stems from a company's inability to meet its obligations, both in terms of liquidity and solvency. Financial distress arises from various situations where a company faces financial difficulties, its income cannot cover total costs, and it experiences losses. This situation is an "early symptom of creditor failure" (Hery, 2016). Financial difficulties can be described on a spectrum ranging from liquidity problems to insolvency (Hanafi, Mamduh H, and Halim, 2007). There are "several types of financial difficulties, namely: (1) Economic Failure, (2) Business Failure, (3) Technical Insolvency, (4) Insolvency in Bankruptcy. Various theories have been developed and used in research to measure financial distress. The Grover model, developed by Grover in 2001 as an update to the Altman Z-Score model, is the latest financial distress measurement model.

There are 3 (three) research variables, namely the dependent variable, namely: *Financial Statement Fraud and Financial Distress* . The independent variables are: (1) Rationalization which is proxied by *Total Accrual to Total Assets* (2) *Opportunity* which is

proxied by *Ineffective Monitoring* (3) *Opportunity* which is proxied by *Ineffective Monitoring* and the Moderating variable, namely *Financial Distress.*

Meanwhile, the research model is as follows:

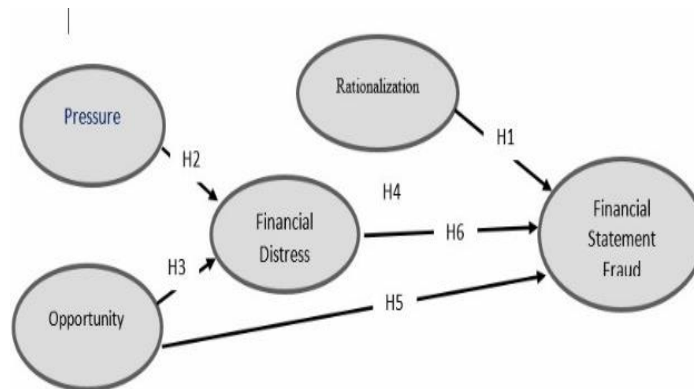

Figure 1. Research Model

Research Hypothesis

1. **The influence *of Rationalization* which is proxied by *Total Accrual to Total Assets* has an effect on *Financial Statement Fraud* .**
Previous research has shown that the ratio of total accruals to total assets has a positive effect on financial statement fraud (Sari & Lestari, 2020). Rationalization, as proxied by Total Accrual to Total Assets, has been identified as a significant factor influencing financial statement fraud. Several studies have explored the impact of rationalization within different fraud theories. For instance, research by Oktarigusta (2017) and Sabatian & Hutabarat (2020) investigated the effects of the Fraud Triangle theory on financial statement fraud, highlighting the role of rationalization. Additionally, studies by (Akbar et al., 2022; Akbar et al., 2022) focused on the Fraud Hexagon theory, demonstrating the positive influence of rationalization on financial statement fraud. Furthermore, research by Meihendri (2023) emphasized the importance of rationalization, along with financial targets, in affecting instances of financial statement fraud. These findings collectively underscore the significance of rationalization, as measured by Total Accrual to Total Assets, in understanding and detecting financial statement fraud within the context of various fraud theories.
H1 = ***Rationalization* has a positive effect on *Financial Statement Fraud.***
2. **The influence of Pressure as proxied by *Financial Target* influences *Financial Distress***
Financial targets is the level of profit performance to be achieved for the effort expended. The high targets that must be met by management will reduce the risk of financial distress. Research (Rosa Sanjayyana & Urumsah, 2021)shows *financial targets* has a negative effect on *financial distress.* The impact of financial pressure, as indicated by financial targets, on financial distress is a crucial factor in comprehending the intricacies of corporate performance and stability. Research by Belinda (2024) demonstrates that financial targets under pressure can significantly contribute to financial statement fraud. This implies that stringent financial goals or expectations can elevate the risk of financial distress as

organizations strive to meet these targets. Furthermore, Tumbelaka (2024) underscores that company size and age can interact with the risk of financial distress, revealing a complex relationship between organizational characteristics and financial stability. The relationship between financial targets, pressure, and financial distress is multifaceted, necessitating a nuanced understanding of how organizational objectives and external factors can impact financial stability and performance.

H2 = Pressure has a negative effect on financial distress.

3. Opportunity proxied by Ineffective Monitoring influences Financial Distress.

Ineffective monitoring is the ineffectiveness of the board of commissioners in supervising financial reporting will have an impact on negative losses, thus causing financial distress. Opportunity has no effect on financial distress (IK Wiantara, IBA Yasa , IN Mandia , 2023).

H3 = Opportunity has no effect* on *financial distress.

4. The influence of Pressure proxied by *Financial Target* and *Opportunity* proxied by *Ineffective Monitoring* on *Financial Statement Fraud* through moderating *Financial Distress*

Effective monitoring and financial distress significantly reduce the likelihood of financial statement fraud. Financial targets, on the other hand, significantly increase the risk of such fraud (Nurlis et al., 2022). The impact of ineffective monitoring on financial distress and fraudulent financial reporting has been widely studied. Research by Saputra (2024) emphasizes that inadequate supervision, as part of the opportunity factor, can lead to fraudulent financial reporting. This suggests that weak monitoring mechanisms within organizations can allow fraudulent activities to go undetected, potentially contributing to financial distress. Furthermore, studies by Budiandru et al. (2022) and Sari et al. (2019) reinforce the notion that ineffective monitoring, as a component of the opportunity factor, can heighten the risk of fraudulent financial reporting.

However, it is important to note that the study by Yuwono & Marlina (2021) found no significant effect of ineffective monitoring on financial statement fraud, suggesting a divergence in research findings on the impact of inadequate supervision on fraudulent activities. Furthermore, the research by Rizani & Respati (2018) emphasizes the role of ineffective monitoring by the audit committee in influencing fraudulent financial reporting, highlighting the importance of robust monitoring practices in preventing financial distress.

Some studies suggest that ineffective monitoring can contribute to financial distress by facilitating fraudulent activities, there are differing perspectives on the significance of this factor in influencing fraudulent financial reporting. The effectiveness of monitoring mechanisms within organizations plays a critical role in detecting and preventing financial irregularities, thereby impacting financial distress levels.

H4 = Pressure *and Opportunity have no direct effect* on *Financial Statement Fraud* through moderating Financial *Distress.*

5. The Influence of Opportunity Proxied by Ineffective Monitoring on Financial Statement Fraud.

The ineffectiveness of the directors in carrying out supervision will reduce the existence of financial fraud committed by the management. The results of research that tested ineffective monitoring had no on fraudulent financial reports (Wahyudin, 2020). Different research

results show that *ineffective monitoring* has been proven to have a significant negative effect on financial statement fraud.

H5 = *Opportunity* has a negative effect on *finances statement fraud.*

6. The influence of *financial distress* on *financial statement fraud*

The formulation of this hypothesis is based on research that shows no influence between financial distress and financial statement fraud (Safiq & Seles, 2019). However, financial distress has been identified as a significant factor influencing financial statement fraud in various studies. Research by Nuristya & Ratmono (2022) provides empirical evidence supporting the notion that financial distress has a positive effect on financial statement fraud. Similarly, Saputra (2024) references previous studies that have shown a positive relationship between financial distress and financial statement fraud. Moreover, Fauzi et al. (2022) found that financial distress significantly influenced the likelihood of fraud among financially distressed companies, indicating a strong connection between financial distress and fraudulent activities.

Furthermore, Aviantara (2021) highlights that financial distress is strongly associated with the pressure factor, suggesting that resolving financial distress can mitigate the occurrence of financial statement fraud. Additionally, Wisnu (2023) found that financial statement fraud negatively impacts financial distress, indicating a complex relationship between the two variables. Overall, these studies emphasize the importance of considering financial distress as a contributing factor to the occurrence of financial statement fraud.

H6 = H6 = *Financial distress* has no effect on *financial statement fraud*

Research Method

This type of research is quantitative research with path analysis. The operational definitions of variables in table 1 are as follows:

Table 1 Operational Definition of Variables

Variable	Operational Definition
Rationalization	Total Accrual to Total Assets Total Accrual Total Assets
Pressure	Financial Target $ROA = \frac{\text{Net Profit}}{\text{Total Assets}}$
Opportunities	Ineffective Monitoring $BDOUT = \frac{\text{Number of independent board of commissioners}}{\text{Total board of commissioners}}$
Financial Distress	$G = 1.651\, X_1 + 3.404\, X_2 - 0.016\, ROA + 0.057$ Information: X_1 = *Working Capital / Total Assets* X_2 = *EBIT / Total Assets* ROA = *Net Income / Total Assets*
Financial Statement Fraud	Profit management

Population and Sample

The population in this research is 31 transportation and logistics companies listed on the Indonesia Stock Exchange in 2020-2022. Non-probability sampling technique using purposive sampling technique with the following criteria:

(1) Banking companies that go public and list on the Indonesia Stock Exchange (BEI) in 2020-2022.
(2) Companies that publish audited annual reports for the 2020-2022 period.
(3) The data required for the research is available in publications during the 2020-2022 period.

Based on these criteria, the research sample was 19 companies in the transportation and logistics sector. The data processed by 19 companies was multiplied by 3 years, becoming 57 samples. Hypothesis testing is carried out by looking at the existing path coefficient by comparing the calculated t with the t table and the probability value of 0.05 with P Values using the following decision basis:

1. If P Values <0.05 then Ha is accepted and Ho is rejected, meaning that the exogenous variable has a significant effect.
2. If P Values > 0.05 then Ha is rejected and Ho is accepted, meaning that the exogenous variable has no significant effect.

Result and Discussion

The R Square test results in table 2 are as follows:

Table 2 R Square Test Results

	R Square	R Square Adjusted
FINC DISTRESS	0.805	0.798
FINC. FRAUD STAT	0.107	0.038

Based on multiple linear regression testing with SmartPLS in table 2, the result of the coefficient of determination or customized R square is 0.805 . This means that pressure and opportunity have a strong influence on financial distress by 80.5%, while the remaining 19.5% is influenced by other variables that were not studied. Meanwhile, the second test result customized R square adjusted is 0.107 . This means that pressure and opportunity have a weak effect on Financial Statement Fraud 10.7% and 89.3% were influenced by other variables not studied.

Table 3 Model Fit

	Saturated Model	Estimated Model	Model
NFI	1,000	0.868 _	Fit

In table 3, the results of the goodness of fit test show that the NFI value is said to be Fiy because it has a value greater than 0.90, namely 1,000>0.90. It can be concluded that the model in this research has a high goodness of fit and is suitable for use to test hypotheses.

Hypothesis testing

The basis used to test the hypothesis is the value contained in the path coefficient and indirect effect output to test the direct and indirect influence hypothesis. Table 4 explains the results of hypothesis testing, as follows:

Table 4. Final Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
FINC DISTRESS -> FINC. FRAUD STAT	-0.325	-0.207	0.359	0.903	0.367
Moderating Effect 1 -> FINC. FRAUD STAT	-0.146	-0.075	0.221	0.661	0.509
OPPORTUNITY -> FINC DISTRESS	0.105	0.091	0.036	2,921	0.004
OPPORTUNITY -> FINC. FRAUD STAT	0.036	-0.001	0.125	0.286	0.775
PRESSURE -> FINC DISTRESS	0.886	0.866	0.066	13,499	0,000
RAZIONALIZATION -> FINC. FRAUD STAT	0.981	0.979	0.678	1,447	0.149

Source: SmartPLS data processing results

Based on table 4, the results of data processing can be explained as follows:

Relationship between the Rationalization Variable proxied by Total Accruals on Total Assets and Financial Statement Fraud. The P Values result is 0.149, meaning 0.149 > 0.05, so Ho is accepted, meaning there is no significant influence between Rationalization and Financial Statement Fraud. **Hypothesis 1** states that rationalization has a positive effect on financial statement fraud. The research results show that rationalization is proxied by calculating total accruals with total assets and has no effect on financial statement fraud, so hypothesis 1 is rejected as true. This shows that changes in rationalization which are proxied by calculating total accruals with total assets do not affect financial statement fraud.

The relationship between the rationalization variable, proxied by total accruals on total assets, and financial statement fraud has been a subject of interest in academic research. The hypothesis that rationalization has a positive effect on financial statement fraud has been examined in various studies. However, the research results indicate that rationalization, as measured by total accruals to total assets, does not have a significant influence on financial statement fraud. This finding leads to the rejection of Hypothesis 1, which posited a positive relationship between rationalization and financial statement fraud.

Studies such as those by (Hantono, 2018), Mehanna and Soliman (Alyani, 2023), and Yulistyawati et al. Puspitadewi & Sormin (2018) have explored the impact of rationalization,

proxied by total accruals to total assets, on fraudulent financial reporting. These studies have shown mixed results, with some indicating a significant association between rationalization and financial statement fraud, while others suggest no partial effect on financial statement fraud.

S ome studies indicate a positive relationship between rationalization, measured by total accruals to total assets, and financial statement fraud, the overall body of research presents conflicting findings. These discrepancies highlight the complexity of factors influencing financial statement fraud and emphasize the need for further research to fully understand the dynamics at play.

The relationship between the Pressure variable proxied by *Financial Target* and *Financial Distress* . The P Values result is 0.000, meaning 0.000 < 0.05, so Ho is rejected, meaning there is a significant influence between pressure and financial distress. This finding contradicts **Hypothesis 2** states that pressure has a negative effect on financial distress, as it implies that pressure indeed has a notable impact on financial distress.

Previous research studies have delved into the factors influencing financial distress and shed light on the relationship between pressure and financial distress. Elviana & Ali (2022) explored the determination of financial distress and stock prices, emphasizing the effects of financial performance and sales growth. Sanjayyana & Urumsah (2021) investigated factors influencing financial statement fraud and financial distress, highlighting the negative impact of profitability on financial distress. These studies provide insights into the multifaceted nature of financial distress and the various factors that contribute to its occurrence.

Moreover, Mahmood et al. (2018) examined the relationship between financial distress, financial flexibility, and firm performance, showcasing the intricate interplay of variables such as market-to-book value, firm size, profitability, and cash holdings. Balasubramanian et al. (2019) also contributed to the discourse by modeling corporate financial distress using both financial and non-financial variables, indicating a positive association between certain factors.

While Hypothesis 2 suggested a negative relationship between pressure and financial distress, the empirical evidence suggests otherwise, highlighting the significant influence of pressure on financial distress. The synthesis of theoretical references and previous research results underscores the complexity of financial distress dynamics and the need for further exploration to comprehensively understand the interrelationships between variables influencing financial outcomes.

The relationship between the Opportunity variable which is proxied by Financial Targets and Financial Difficulties. The results of P Values are 0.004, meaning 0.004 < 0.05, so Ho is rejected, meaning there is a significant influence between opportunity and financial distress, while **Hypothesis 3** states that Opportunity has no effect on financial distress. This finding contradicts Hypothesis 3, which states that Opportunity does play an important role in influencing financial difficulties.

Previous research studies have explored factors that contribute to financial hardship and the relationship between Opportunities and financial outcomes. Research such as that conducted by (Demetriades & Owusu-Agyei, 2021), (Irawan et al., 2019), and Dunakhir et al. (2022) have investigated the elements of the Fraud Diamond model, including Opportunity, and their impact on financial statement fraud. These studies highlight the importance of Opportunity, proxied by variables such as ineffective monitoring and industry nature, in detecting fraudulent financial reporting.

Moreover, Yendrawati et al. (2019) found that the industry nature variable proxied by Opportunity has an influence in detecting the possibility of fraudulent financial reporting. Sudaryono (2021) also emphasizes the positive and significant influence of pressure, including financial targets, on fraudulent financial reporting, which further underlines the importance of opportunities in the detection of financial violations.

Although Hypothesis 3 states there is no effect of Opportunity on financial difficulties, empirical evidence shows a significant relationship between Opportunities and financial difficulties. A synthesis of theoretical references and previous research results highlights the important role of Opportunity in understanding and detecting financial distress, emphasizing the need for continued exploration in this area to improve financial risk management practices.

The relationship The research results show P Values of 0.509, meaning 0.509 > 0.05, so Ho is accepted, meaning there is no significant direct influence between pressure and opportunity on financial statement fraud through financial distress. These results support **Hypothesis 4** which states that Pressure and Opportunity have no direct effect on Financial Statement Fraud through moderating Financial Difficulty.

Previous research has investigated various aspects of the Fraud Diamond theory and its components regarding financial statement fraud. Research (Sari et al., 2019), (Akbar et al., 2021), and Fauzi et al. (2022) have examined elements of the Fraud Diamond model, such as Pressure and Opportunity, which explain their influence on fraudulent financial reporting. This investigation has provided valuable insight into how external pressures, financial stability, and ineffective monitoring can influence the occurrence of financial misconduct.

In addition, research by Wulandari (2023) and Duffin & Djohan (2022) emphasizes the role of Opportunity and Pressure in detecting fraudulent financial statements. These studies underscore the importance of considering the various elements of Fraud Diamond theory and their interactions to understand fraudulent activity in organizations.

In summary, although the analysis does not reveal a significant direct influence of Pressure and Opportunity on financial statement fraud through financial distress, the body of research on Fraud Diamond theory offers valuable insight into the complexities of financial fraud. The integration of theoretical references and previous research results highlights the diverse nature of financial misconduct and the need for a comprehensive approach to identifying and preventing fraudulent financial reporting.

The relationship between Proxied Opportunities and Infective Supervision of Financial Report Fraud. The research results show a P-value of 0.775, which indicates that 0.775 is

greater than the significance level of 0.05. Thus the null hypothesis (H0) is accepted which indicates that there is no significant direct influence between opportunity and financial statement fraud. Meanwhile, **Hypothesis 5** states that opportunity has a negative effect on financial statement fraud.

Previous research studies have explored various aspects of financial statement fraud and the factors that involve fraudulent activity. Studies by (Sihombing, 2022), (Lastrini, 2023), and Diansari & Wijaya (2019) have investigated elements of Fraud Diamond theory, including ineffective monitoring, and their impact on financial statement fraud. These studies highlight the importance of understanding how inadequate monitoring can create opportunities for fraudulent behavior in organizations.

In addition, research by Widnyana & Widyawati (2022) and Soejoto & Petronila (2020) has emphasized the role of Opportunity in detecting financial statement fraud. These studies underscore the importance of considering factors such as pressure, rationalization, and capabilities in understanding and detecting fraudulent financial reporting.

Although the analysis does not reveal a significant direct influence between Proxied Opportunities and In Effective Supervision on financial statement fraud, research on the Fraud Diamond theory provides valuable insight into the complexity of financial violations. The integration of theoretical references and previous research results underscores the diverse nature of financial fraud and the importance of a comprehensive approach to detecting and preventing financial reporting fraud.

The relationship between *financial distress* and *financial statement fraud* . The research results show that the P-value is 0.367 which is greater than the significance level of 0.05 or 0.367 > 0.05, so Ho is accepted, meaning there is no significant influence between financial distress and financial statement fraud. This finding is in accordance with **Hypothesis 6** which states that financial distress has no effect on financial statement fraud.

Previous research studies have explored the relationship between financial distress and financial statement fraud. Studies conducted by (Nurul, 2023), (Saputra, 2024), and Lastrini (2023) have investigated the impact of financial distress on fraudulent financial reporting. Although some studies show a positive relationship between financial hardship and financial statement fraud, other studies do not find a significant effect.

Moreover, research by Fauzi et al. (2022) and Wisnu (2023) highlight the role of financial distress in influencing the possibility of fraudulent financial statements. These studies have provided insight into how financial difficulties may interact with other factors that contribute to fraudulent activity within organizations.

Although the current study did not find a significant influence between financial distress and financial statement fraud, research on this topic presents mixed findings. The integration of theoretical references and previous research results underscores the complexity of the relationship between financial distress and financial statement fraud, emphasizing the need for further exploration to fully understand the dynamics at play.

Findings from this study underscore the multifaceted nature of financial statement fraud, highlighting the interrelationships between rationalization, pressure, opportunity, and financial distress. By considering these variables along with factors such as audit quality and governance mechanisms, organizations can better detect and prevent fraudulent activity, thereby maintaining their financial integrity.

Conclusion

Based on the research results, it can be concluded as follows:

1. Rationalization which is proxied by Total Accrual to Total Assets has no effect on Financial Statement Fraud.
2. The pressure proxied by the Financial Target influences Financial Distress.
3. Opportunity proxied by Financial Target influences Financial Distress.
4. Pressure proxied by Financial Target and Opportunity proxied by Ineffective Monitoring have no direct effect against Financial Statement Fraud through Financial Distress moderation.
5. The opportunities proxied by Ineffective Monitoring have no effect on Financial Statement Fraud.
6. Financial distress has no effect on financial statement fraud.

Declaration of conflicting interest

We, the authors, declare that there is no conflict of interest in the work of this article.

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