

The Effect of Fraud Diamond on Financial Statements of Insurance Companies in Indonesia

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ABSTRAK

Skandal korupsi Jiwasurya dan kasus terkait mengungkapkan tekanan keuangan yang signifikan, peluang penipuan, rasionalisasi tindakan, dan kemampuan untuk memanipulasi laporan keuangan, menekankan pentingnya penelitian dan kesadaran dalam mengatasi penipuan laporan keuangan di industri asuransi. Penelitian ini bertujuan untuk menganalisis dampak fraud diamond yang terdiri dari tekanan, peluang, kapabilitas, dan rasionalisasi terhadap kecurangan laporan keuangan perusahaan. Kajian ini menjadi krusial mengingat mendesaknya isu insiden fraud di beberapa perusahaan asuransi milik negara dalam beberapa tahun terakhir. Sebuah perusahaan asuransi dijadikan sampel dalam penelitian ini, menggunakan STATA dengan 55 observasi laporan keuangan dari tahun 2016-2020, dengan durasi penelitian selama 5 tahun. Temuan penelitian ini tidak dapat membuktikan bahwa fraud diamond yang terdiri dari tekanan, peluang, kapabilitas, dan rasionalisasi berpengaruh terhadap kecurangan laporan keuangan. Ini bertentangan dengan hasil penelitian sebelumnya dan menandai penolakan pertama terhadap hipotesis yang ditetapkan melalui pemodelan regresi dalam bidang studi ini. Kecurangan laporan keuangan dapat bervariasi antar sektor berdasarkan hasil penelitian ini. Studi ini memberikan kontribusi untuk memahami kecurangan pelaporan keuangan di industri asuransi, menekankan pentingnya tekanan dan kesempatan sebagai faktor kunci.

Kata Kunci:

Segi Empat Kecurangan, Kecurangan Laporan Keuangan, Perusahaan Asuransi

ABSTRACT

The Jiwasurya corruption scandal and related cases revealed significant financial distress, opportunities for fraud, rationalization of actions, and the ability to manipulate financial statements, emphasizing the importance of research and awareness in addressing fraudulent financial statements in the insurance industry. This study aims to analyze the impact of the fraud diamond, composed of pressure, opportunity, capability, and rationalization, on corporate financial statement fraud. This study is crucial due to the pressing issue of fraud incidents at several state-owned insurance firms in recent years. An insurance company serves as the sample for this research, using STATA to utilize 55 financial statement observations from 2016-2020, with a research duration of 5 years. The study's findings were not able to establish that the fraud diamond, composed of pressure, opportunity, capability, and rationalization, affects financial statement fraud. This contradicts the results of previous examinations and marks the first instance of rejection of a hypothesis established through regression modeling in this field of study. The occurrence of financial statement fraud may vary among sectors based on the results of this study. This study contributes to understanding fraudulent financial reporting in the insurance industry, emphasizing the importance of pressure and opportunity as key factors.

Keywords:

Fraud Diamond, Fraudulent Financial Statements, Insurance Company

INTRODUCTION

Recently, Indonesia was shocked by the corruption scandal in the insurance company that belongs to the state, PT Asuransi Jiwasraya (Persero). Six defendants caused state losses of Rp. 16.8 trillion (Guritno, 2021; Susanto, 2021). The individuals facing charges are Hendrisman Rahim, former director of Asuransi Jiwasraya (AJS), Hary Prasetyo, former finance director of AJS, Syahmirwan, head of investment and finance division of AJS, Joko Hartono Tirto, director of PT Maxima Integra, Heru Hidayat, president commissioner of PT Trada Alam Minera, and Benny Tjokrosaputro, president director of PT Hanson International Tbk. (Prabowo, 2020). It turns out that the case is an accumulation of incidents since 2006, was revealed in 2018, and the defendants were sentenced to life imprisonment in 2020 (CNN Indonesia, 2020, 2021). The irregularities in the case became noticeable when the management of Jiwasraya reported a deficit in reserves worth Rp7.7 trillion to the Public Accounting Firm (KAP) PricewaterhouseCoopers (PwC), but management had only recorded Rp2 trillion. The deficit was supposed to be worth Rp 9 trillion (Sutianto, 2020). The recommendations made by PwC were disregarded by the management, leading to the replacement of some of the directors. This indicates that there was an intentional manipulation of the company's financial statements (Gusti, 2020).

After a deeper investigation, the Center for Financial Transaction Reports and Analysis (PPTAK) discovered the involvement of professional money launderers who moved funds from one account to another in a systematic manner, which was closely linked to the former management of Jiwasraya (Kencana, 2020). The other tactic used is to sell stocks that are difficult to value and have low marketability at inflated prices and then sell them when their value decreases. Adnan Topan Husodo, the coordinator of Indonesia Corruption Watch, stated that although the internal control system and external audits, such as those performed by BPK, had been checking for warning signs, these findings were not acted upon by those in positions of decision-making (Pratama, 2021).

The corruption is not limited to Jiwasraya but has also taken place in another state-owned enterprise, PT Asabri (Persero), involving two of the defendants in the Jiwasraya scandal, Benny Tjokrosaputro and Heru Hidayat, leading to a potential loss to the state of up to Rp 23.7 trillion (Ayyubi & Suwiknyo, 2021; Nufus, 2021). The potential loss to the state in the PT Asabri (Persero) case is larger than that of the Jiwasraya case. Like the Jiwasraya scandal, the suspects in the Asabri case agreed to trade or purchase shares in Asabri's investment portfolio with their own shares at an inflated price, with the intention of making the performance of Asabri's investment portfolio appear favorable (Idris, 2021). After acquiring the shares, the Asabri Board of Directors agreed to engage in a sham transaction that ultimately resulted in a loss for Asabri as the shares were sold for less than their acquisition price. There are still ongoing cases involving private insurance companies, such as PT Asuransi Jiwa Bersama Bumiputera 1912 and PT Asuransi Jiwa Kresna (Firmansyah, 2021; Octaviano, 2021; Sidik, 2020) which have begun to surface.

One of the factors that can be observed in the case of Asuransi Jiwasraya is the presence of significant financial pressure. Jiwasraya faced financial difficulties and was burdened with policy payment obligations that exceeded its income. High financial pressure can encourage individuals within the company to engage in fraudulent activities to overcome financial crises. In this case there are indications of opportunities or gaps in Jiwasraya's operational and financial reporting processes that allow fraud to occur. For example, weaknesses in the internal control system or inadequate oversight. This opportunity provides space for fraud perpetrators to manipulate financial reports for personal gain.

The rationalization aspect in Fraud Diamond theory relates to the ability of fraud perpetrators to justify or understand their actions morally or ethically. In the Jiwasraya case, perpetrators of fraud could have rationalized their actions by arguing that they were doing it for the survival of the company or to avoid bankruptcy. They may also justify that their actions were reasonable or justified given the difficult situation they were in. Capability is an important factor in Fraud Diamond theory, encompassing the skills, knowledge, and abilities possessed by individuals to commit fraudulent acts. In the Jiwasraya case, the perpetrators of fraud were deemed to have sufficient skills and knowledge to manipulate financial reports for personal gain.

The study of fraud is limited, as it only takes place when fraud cases are detected in public or private companies that cause losses for the state and the public. This is similar to an iceberg, where only a small portion of fraud is uncovered, compared to all the fraud that takes place (Tuanakotta, 2010). There are three categories of fraud itself (Tuanakotta, 2010), namely: (1) fraud existing lawsuits (prosecution), irrespective of the decision of the court; (2) fraud found, but no lawsuit has been filed; (3) undiscovered fraud.

On the other hand, research on the "fraud diamond" theory has a sample of companies in the insurance industry as a whole. This makes the focus on the insurance industry a unique aspect of this research, because previous research has never been conducted in the insurance industry and with the Jiwasraya case in 2021 it becomes increasingly important to conduct research in this industry so that similar incidents do not happen again. The sample used is the latest time series data from the last five years (2016-2020), which allows interpretation of changes in data every year. Company data during the 2020 pandemic is suspected of having had an impact on fraudulent financial statements, considering that the pandemic has become a major deviation in the business world which also has an impact on companies. The study of some of these cases seeks to examine several elements of the diamond fraud and their effect on the fraudulent financial statements in insurance companies in Indonesia. The research aims to contribute to the knowledge of all stakeholders, and raise awareness among the public about the risks, including the risk of fraud, that should be understood.

Agency Theory

This theory is based on the relationship between managers who act as agents and investors who function as contract principals. This agreement allows managers to carry out activities that investors may not like, resulting in agency costs (Widyaningrum, 2018). These costs include monitoring costs (investor expenses to ensure managerial control), bonds (managerial collateral to protect investors), and residual losses. Monitoring costs are related to a decrease in the level of welfare after the agency relationship is formed.

Conflicts arising from this agency relationship can lead to information asymmetry, where the information held by managers and investors is different, causing information imbalance. To overcome this, managers and investors need intermediaries to supervise and monitor managerial performance, aligned with the needs of investors (Khairani & Wimelda, 2017).

Fraud Diamond

There are several factors that contribute to why a person may commit fraud. One theory was put forth by Donald R. Cressey and later summarized in the *Forensic Accounting & Investigative Audit* book by Gee (2015). The theory consists of three aspects: pressure, perceived opportunity, and rationalization. Another aspect, known as capability, was later added by ACFE (2020). The concept of the fraud triangle consists of three key components and when combined with capability, it becomes known as the fraud diamond, which takes into account a person's four motivations to commit fraud. The Fraud Diamond Theory was originally introduced by Wolfe and Hermanson in a December 2004 publication in the *CPA Journal*. This theory is considered as an advanced form of the Fraud Triangle Theory. Wolfe and Hermanson (2004) argue that fraud is facilitated by opportunity, while incentives (pressure) and rationalization encourage individuals to engage in fraudulent acts. However, it is individual abilities that allow them to identify open doors of opportunity and repeatedly exploit them by taking advantage of situations.

Capability refers to the possession of certain traits, skills and abilities that enable a person to commit fraudulent acts. This requires fraud perpetrators' recognition of the special opportunities for fraud and their ability to turn those opportunities into realities. Components such as position, intelligence, ego, coercion, deception, and stress are factors that support an individual's ability to engage in deception (Wolfe and Hermanson, 2004).

Many of the leading scams seen today are perpetrated by intelligent, experienced, and creative individuals who have a deep understanding of control and vulnerability. This knowledge is used to manipulate individual concerns for authorized access to systems or assets. In addition, fraudsters display a strong ego and unshakable belief in their ability to avoid detection or quickly solve any problem if caught. This belief or arrogance impacts an individual's cost-benefit analysis when considering

engaging in fraud. The higher the level of trust, the lower the perceived costs associated with committing fraud (Wolfe and Hermanson, 2004).

Fraudulent Financial Statement

To detect fraud, various methods are employed that involve analyzing anomalies, such as outliers, unexpected inliers, too many or too few transactions, unexplained items, strange relationships between items, unusual timing of transactions or events, peculiar accounts or balances, mismatches, duplicate item numbers, unforeseen payment methods, and unreasonable items (Gee, 2015). Fraud itself is divided into three broad categories known as the fraud tree, which consists of corruption, asset misappropriation, and fraudulent financial statement (ACFE, 2020). Still being discussed by ACFE (2020), the fraudulent financial statements are categorized into two major types, overstatements of net worth/income and understatements of the same. These categories are further divided into several fraudulent schemes such as timing discrepancies, false representation of revenues (or underreported revenues), hiding of liabilities and expenses (or overstated liabilities and expenses), incorrect valuation of assets, and inadequate disclosures.

It is noteworthy that asset misappropriation is the most frequent form of fraud and has the least cost, with 86% of cases and a median loss of \$100,000. On the other hand, fraudulent financial statements schemes are the costliest, with 10% of cases and a median loss of \$954,000 (ACFE, 2020).

Previous Research

Analysis of Factors Influencing Fraud Financial Statements with Fraud Diamond Perspective (Empirical Study on LQ-45 Companies Listed on the IDX in 2009-2013) (Prasastie & Gamayuni, 2015): The researchers employed four independent variables in their study, which were financial stability, the effectiveness of supervision, auditor turnover, and ability. Out of the four variables that impact fraudulent financial statements, only financial stability and the effectiveness of supervision were considered.

Analysis of Factors Influencing Fraud Financial Statements with Fraud Diamond Perspective (Empirical Study on LQ-45 Companies Listed on the IDX in 2009-2013) (Hugo, 2019): The researcher discovered that both the Beneish M-Score model and the F-Score model are effective in identifying fraudulent financial statements but have a tendency to underestimate the fraud if the necessary data is incomplete. They cannot detect significant misstatements in disclosures.

The Effect of Fraud Diamond on Fraudulent financial statement (Study on Manufacturing Companies listed on the Indonesia Stock Exchange 2016 to 2017) (Purnama & Suryani, 2019): The researcher employed four independent variables as proxies, which were financial stability, changes in the nature of the industry, auditor turnover, and changes in directors. Out of the four variables, only financial stability had an impact on fraudulent financial statements.

Fraud Diamond Analysis in Detecting Fraud Financial Statements: An Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX) 2013-2015 (Putriasih et al., 2016): The researchers employed eight variables including financial targets, financial stability, external pressure, the nature of the industry, ineffective monitoring, auditor turnover, rationalization, and capability in their study. All of these variables had an impact on fraudulent financial statements.

Analysis of the Effect of Fraud Diamond on Fraudulent financial statement (Empirical Study on Manufacturing Companies Listed on the IDX in 2013-2016) (Rahmayuni, 2018): The study determined that financial stability and auditor change had no significant impact on detecting fraudulent financial statements, while factors such as external pressure, financial targets, industry nature, and capabilities had a significant negative effect on detecting fraudulent financial statements.

Fraud Financial Statement Detection: Fraud Diamond Testing (Yesiariani & Rahayu, 2017): The research found that external pressure and rationalization had a significant positive impact on fraudulent financial statements, while financial stability and financial targets had a significant negative impact. The variables of personal financial need, ineffective monitoring in the industry, changes in auditors, and capability had no effect on fraudulent financial statements.

Fraud Detection of Financial Statements Using Fraud Diamond (Annisya et al., 2016): The researcher discovered that financial stability, external pressure, and the opinion of auditors had a positive impact on fraudulent financial statements. On the other hand, variables such as financial targets, the nature of the industry, and changes in directors had no effect on fraudulent financial statements.

Based on the seven literature reviews, it is noted that not all independent variables have an impact on the dependent variable. This is due to differences in sample selection by each researcher. Research that uses the entire population of issuers listed on the Indonesia Stock Exchange (IDX) as a sample has a higher likelihood of the independent variables having a significant effect on the dependent variable, especially if it is conducted in a time-series manner. On the other hand, if the research is limited to one industry, the likelihood of the independent variables affecting the dependent variable may still exist, but it would depend on the type of industry being studied, such as the manufacturing industry that has many issuers. However, no research has been conducted specifically on the insurance industry, despite several companies being caught in a mega corruption scandal. Hence, this research area is of great interest and deserves further exploration.

Hypothesis Development

An individual may experience a combination of internal and external pressure that drives them to commit fraud, such as the feeling of a financial need that cannot be shared with others, known as perceived non-sharable financial need (Lindianasari & Asamarnti, 2015). Companies often receive incentives from external parties, and one of the common incentives is from the management of the company itself. These incentives arise because of the need to secure additional debt or external funding

sources to remain competitive, such as financing research and development projects or capital expenditures. Companies with high debt ratios may feel compelled to manipulate earnings to appease stakeholders. When there is an opportunity to engage in earnings management within a company, there is a tendency for fraudulent financial reporting to occur with a view to demonstrating strong performance to shareholders. Managers can also manipulate financial reports to align them with debt compliance requirements. This implies that higher debt levels indicate a greater likelihood of fraudulent financial reporting. Dechow et al. (2012) and Amara et al. (2013) also support this idea in their respective studies, finding a positive relationship between debt levels and the likelihood of fraudulent financial reporting. Higher debt ratios are associated with an increased likelihood of fraudulent financial reporting. The author aims to examine the impact of the pressure variable on fraudulent financial statements. In previous studies, the pressure variable was evaluated using separate proxies, but this time, the author intends to test the proxies collectively to form a pressure variable. Based on this evidence, the research hypothesis is:

H1: Pressure has a positive effect on fraudulent financial statements

The pressure aspect is not considered to be a direct cause of fraud but rather the opportunity for fraud arises from it. The opportunity occurs due to the perpetrators' knowledge of the weaknesses in the organization's control systems and their ability to secure a position to gather information (Tuanakotta, 2010). The author wants to test whether the opportunity variable has a positive effect on fraudulent financial statements, wherein previous studies, the pressure variable was tested separately for each proxy used, while these proxies need to be tested together to form an opportunity variable.

H2: Opportunity has a positive effect on fraudulent financial statements

The aspect of justification is performed prior to the commission of fraud as a means of motivating the perpetrating individual. This allows the individual to rationalize their illegal actions in order to preserve their self-image (Tuanakotta, 2010). Capabilities refer to personal attributes and competencies that enable individuals to engage in fraudulent activities effectively, as emphasized by Wolfe and Hermanson (2004). In the context of this study, capability refers to the extent to which individual capacity and power influence fraudulent financial reporting within a company. According to Wolfe and Hermanson (2004), capability refers to an individual's position or function in an organization, taking into account their ability, capacity, and extent of power to commit fraud in the corporate environment by creating or taking advantage of opportunities. for fraudulent activities, and this notion is corroborated by the significant and positive effect of capability on fraudulent financial reporting as shown in research conducted by Pardosi (2015).

H3: Capability has a positive effect on fraudulent financial statements

Additionally, Wolfe & Hermanson introduced the aspect of capability to demonstrate that only those who have the capability to commit fraud actually carry it out. According to their perspective, there are five key points that are crucial in this aspect (Wolfe & Hermanson, 2004):

1. An individual's role or duties within the company can offer the capability to generate or take advantage of fraudulent opportunities that others don't have access to.
2. Individuals who are suitable to commit fraud are clever enough to recognize and exploit shortcomings in internal controls and utilize their authorized roles, functions, or access to the fullest extent.
3. These individuals have a high sense of self-esteem and a strong belief that they will not get caught or can easily talk their way out of trouble if they are caught.
4. Successful fraudsters have the ability to coerce others into participating in or concealing the fraud.
5. These individuals have the ability to manage stress effectively.

Wolfe and Hermanson (2004) and Rudewicz (2011) highlight that successful fraudsters must have the ability to lie effectively and consistently. To avoid detection, fraudsters need to confidently deceive auditors, investors and other individuals in their vicinity. This requires not only the skill to concoct convincing lies but also the ability to track these lies, ensuring that the overall narrative remains coherent and consistent.

H4: Rationalization has a positive effect on fraudulent financial statements

RESEARCH METHODS

Data Types and Sources

This study uses a pure research approach with a quantitative and explanatory orientation. The research method focuses on data to test theories, models, and hypotheses (Hakim, n.d.). This study uses a quantitative and explanatory approach with a focus on testing hypotheses through sample data. It employs the principles of inference under the assumption of a specific distribution. The research approach in economics and business uses quantitative methods to analyze real-world economic phenomena, taking into consideration the assumptions made by researchers regarding the data and variables being studied, as well as theories and interpretations (Panorama, 2017). This study also employs explanatory research, which aims to determine the effect of one variable on another at the same level of measurement (Esser & Vliegthart, 2017).

This research relies on secondary data, specifically the annual reports and audited financial statements of companies in the Indonesian insurance sector. To be eligible for the study, the companies must be public and listed on the Indonesia Stock Exchange (IDX), and the data was obtained through the official IDX website, www.idx.com.

Data Collection Method

The data for this study is sourced from the population of Indonesian insurance firms and the sample is selected using purposive sampling, which involves choosing certain characteristics based on the research goals. The criteria established for this study are:

1. An Indonesian insurance company that falls under the category of publicly traded companies and has made its annual financial reports available on both the IDX website and official company website during the 2016-2020 period.
2. The Indonesian insurance company must not have been delisted during the observation period.
3. The Indonesian insurance company must have all necessary data required for the measurement of variables.

The data collection process in this study involves both the literature study method and documentation. The literature study method is used to make comparisons and analyze previous research, ongoing research, and theories related to the study. The documentation method is utilized to observe business events based on secondary data, specifically the annual reports and financial statements of companies.

Operational Definition and Variable Data

The findings from the literature review suggest that the F-score model can anticipate the presence of errors or inaccuracies in financial statements (Dechow et al., 2011). Alternatively, to predict every component of the fraud diamond, the focus is on pressure, specifically utilizing changes in total assets, ROA, and leverage to represent financial stability, financial goals, and external pressure (Ak et al., 2013). According to the findings, the opportunity aspect of fraud can be predicted by changes in the receivables model, which is influenced by the industry sector (Summers & Sweeney, 1998), and by the ratio of independent commissioners in the company, which suggests ineffective monitoring (Agustina & Pratomo, 2019). The capability variable can be forecasted using the dummy variable model for audit opinion, while the rationalization variable can be predicted through the change of directors dummy variable model (Purnama & Suryani, 2019)

Table 1: Operational Definition and Variable Data

| Proxy | Indicator | Scale |
|--------------------------------|---|---------|
| Financial Stability | $ACHANGE = \frac{(Total\ Asset_t - Total\ Asset_{t-1})}{Total\ Asset_t}$ | Ratio |
| Financial Target | $ROA = \frac{Earnings\ before\ tax}{Total\ Asset}$ | Ratio |
| External Pressure | $Leverage = \frac{Liabilities}{Total\ Asset}$ | Ratio |
| Ineffective Monitoring | $BDOUT = \frac{Total\ Independent\ Commissioners}{Board\ of\ Commissioners}$ | Ratio |
| Nature of Industry | $RECEIVABLE = \frac{Receivables_t}{Sales_t} + \frac{Receivables_{t-1}}{Sales_{t-1}}$ | Ratio |
| Audit Opinion | Dummy variable of audit opinion | Nominal |
| Change of Directors | Dummy variable of change of directors | Nominal |
| Fraudulent Financial Statement | $RSST\ Acrual = \frac{\Delta WWC + \Delta NCO + \Delta FIN}{Average\ of\ Total\ Asset}$ | Ratio |

Multiple Linear Regression Estimation Method

$$F - \text{Score} = \alpha_0 + \alpha_1 \text{ PRE} + \alpha_2 \text{ OPP} + \alpha_3 \text{ CAP} + \alpha_4 \text{ RAT}$$

Information:

| | | | |
|----------------|---|-----|-------------------|
| F-Score | : Fraudulent financial statement | OPP | : Opportunity |
| α_0 | : Constant coefficient | CAP | : Capability |
| α_{1-4} | : Coefficient of the independent variable | RAT | : Rationalization |
| PRE | : Pressure | | |

The variables in the research were proxied as follows: the PRE variable was represented by the average of financial stability, financial target, and external pressure; the OPP variable was represented by the average of ineffective monitoring variables and industry nature; the RAT variable was represented by the audit opinion variable; and the CAP variable was represented by the change in the director's variable. The dependent variable of fraudulent financial statements was proxied by the F-Score value. The researcher believed that these variables were adequate to use as a research model for testing based on prior research.

RESULT AND DISCUSSION

This study utilized a sample selection based on predetermined criteria, specifically public insurance companies listed on the Indonesia Stock Exchange (IDX) from 2016-2020, excluding companies with incomplete data for the selected variables or missing financial statement data and whose annual report is not accessible on either www.idx.com or the company's official website.

Table 2: Research Sample Criteria

| No | Information | Number of Companies | Observation Data |
|----|--|---------------------|------------------|
| 1 | This study uses a sample of publicly traded insurance companies listed on the Indonesia Stock Exchange (IDX) during the period of 2016-2020, excluding companies that have missing data in regards to the variables or financial statement information. Also, if their annual reports are not accessible on the www.idx.com website or the official company website, they are not included in the sample. | 14 | 70 |
| 2 | Public insurance companies that are delisted and do not have complete data | 3 | 15 |
| | The total sample of companies used | 11 | 55 |

Therefore, 11 insurance companies are the samples and objects of the author's research with a total of 55 observational data for annual reports and company financial statements in 2016-2020.

Descriptive Statistics Test Results

In the descriptive statistical analysis, the results show that the PRE variable has a minimum of -1.561608, a maximum of 0.4494953, and an average of 0.1815286. The standard deviation of the PRE variable is 0.2507367, which indicates a wide range of data. On the other hand, the OPP variable

has a minimum of 0.4099956, a maximum of 4.305007, and an average of 0.7975065. The standard deviation of the OPP variable is 0.7122515, which is still lower than its average value.

Table 3: Descriptive Statistics

| Variable | Min | Max | Mean | Std. Deviation |
|----------------|-----------|-----------|-----------|----------------|
| PRE | -1,561608 | 0,4494953 | 0,1815286 | 0,2507367 |
| OPP | 0,4099956 | 4,305007 | 0,7975065 | 0,7122515 |
| CAP | 0 | 1 | 0,9090909 | 0,2901294 |
| RAT | 0 | 1 | 0,9090909 | 0,2901294 |
| F-SCORE | -4,333829 | 2,896089 | -1,134246 | 1,424168 |

Additionally, the CAP and RAT variables use binary values, resulting in equal values and a standard deviation lower than the average value of 0.2901294, which is smaller than the average value of 0.9090909. Meanwhile, the F-SCORE variable has a minimum value of -4.333829, a maximum value of 2.896089, and an average value of -1.134246. The large standard deviation of the F-SCORE variable, 1.424168, suggests a broad range of data diversity.

In the test above, the standard deviation indicates the average deviation of the data from its average. If the standard deviation is larger than the average, the data is considered poor, whereas if the standard deviation is smaller than the average, the data is considered diverse and can be used to represent the overall data obtained.

Hypothesis Test Results

Table 4: Linear regression

| | | |
|---------------|---|---------------|
| Number of obs | = | 55 |
| F(4, 50) | = | 4,31 |
| Prob>F | = | 0,0045 |
| R-squared | = | 0,2068 |
| Root MSE | = | 1,3181 |

The R Square value of 0.2068 indicates that only 20.68% of the independent variable can be explained by the dependent variable, with the remaining portion being explained by other variables. This suggests that the dependent variable holds a strong position.

Table 5: Hypothesis Test Results

| F-SCORE | Coef. | Robust Std. Err. | t | P> t | (95% Conf. Interval) | |
|-----------------|--------|------------------|-------|------|----------------------|--------|
| PRE | -0,725 | 0,279597 | -2,60 | 0,01 | -1,287 | -0,164 |
| OPP | 0,825 | 0,292312 | 2,83 | 0,00 | 0,238 | 1,412 |
| CAP | -0,713 | 0,438635 | -1,63 | 0,11 | -1,594 | 0,167 |
| RAT | 0,402 | 0,648820 | 0,62 | 0,53 | -,900 | 1,705 |
| Constant | -1,378 | 0,677599 | -2,03 | 0,04 | -2,739 | -0,017 |

The hypothesis test results show that two independent variables, PRE and OPP, have a significant impact with a significance value less than 0.05. Meanwhile, the CAP and RAT variables were found to not have a significant effect on the F-SCORE, as determined by comparing the t-table value of 2.009 (at a 95% confidence level and 50 degrees of freedom) with the results.

The negative regression coefficients of PRE, CAP, and RAT indicate a negative relationship between the independent variables and the dependent variable F-SCORE. In other words, if the values of PRE, CAP, and RAT increase, the F-SCORE value decreases and vice versa. This does not necessarily mean that capability and rationalization contribute to fraudulent financial statements, but the relationship between pressure and fraudulent financial statements is clearly inverse.

The positive regression coefficient of OPP implies a direct relationship between the independent variable and the dependent variable F-SCORE. This shows that an increase in OPP value leads to an increase in F-SCORE value and vice versa. This coefficient confirms that pressure and opportunity can indeed drive fraudulent financial statement practices.

The outcomes of this study suggest that the prediction of fraudulent financial statements, as indicated by the F-SCORE calculation proxy, can only be made using the fraud diamond instrument, specifically pressure and opportunity. It was found to be intriguing from the results of the H1 test for the pressure variable, which showed that even though the results were negative, they were still significant. It turns out that this is in line with previous research (Septriani & Handayani, 2018) that changes in assets, ROA, and leverage that become pressures may be accompanied by increased company control. On the other hand, when the pressure is non-existent or decreasing, this becomes an incentive to commit fraud due to a lack of management control. Theoretically, these results are in line with previous research (Purnama & Suryani, 2019; Rahmayuni, 2018), where two factors influence fraud, namely opportunities that come. The urge to manipulate also increases as opportunities increase. The results suggest a lack of a proper internal control system and poor corporate governance may contribute to fraudulent financial statements. However, the evidence for the impact of capability and rationalization is not conclusive, as the proxies used in the study may not fully capture all aspects of the fraud diamond, resulting in insignificant and negative results.

The author acknowledges that it is challenging to accurately predict fraudulent financial statements with a limited number of variables and an insufficient sample size, specifically in the case of the capability and rationalization variables. The author also recognizes that the data from 55 financial and annual reports from 11 companies is still not enough for the testing process, despite being able to process 30 data through STATA software. Additionally, the author believes that the choice of industry may also play a role as there is a lack of similar studies that focus on the insurance sector. Furthermore, the author acknowledges that the selection of proxies for each variable can have an impact on the relationship between the variables.

In conclusion, the findings of the research indicate that pressure and opportunity are the primary factors that drive fraudulent financial statements. Despite not fully meeting the expectations of the author, particularly in terms of the influence of the capability and rationalization variables, this study still makes a valuable contribution to understanding the topic of fraudulent financial statements and

fraud diamonds, with a focus on insurance companies. The practical applications of this research are for professionals in accounting, internal auditing, and financial management to be more mindful of the potential risk factors involved in fraudulent financial statements. This research highlights the importance of carrying out further investigations and assessments within organizations to identify and mitigate fraud risks. This underscores the role of company management in leveraging internal information to proactively deal with potential fraudulent activity.

In conclusion, this study contributes to understanding fraudulent financial reporting in the insurance industry, emphasizing the importance of both pressure and opportunity as key factors. While these studies may not fully support the impact of capabilities and rationalizations, they still provide valuable insights that can guide corporate professionals and management in identifying and addressing fraud risks.

CONCLUSION AND RECOMENDATION

The aim of this study is to demonstrate that pressure, opportunity, capability, and rationalization have an impact on fraudulent financial statements. The author conducted this research in response to a need to investigate the cases of fraud in Indonesian insurance companies over the past three years. The test results confirm that previous research findings are supported, with pressure and opportunity factors playing a role in fraudulent financial statements, while capability and rationalization do not. This is due to the data being uniform, coming exclusively from the insurance industry.

The theoretical significance of this research lies in identifying the most significant factors affecting fraudulent financial statements in Indonesian insurance companies. Furthermore, it contributes to the field of accounting science, particularly in the area of fraudulent financial statements and serves as a reference for future research in the same subject.

This research has practical implications that can benefit both company management and regulators. For company management, it provides a basis for detecting fraudulent financial statements in Indonesian insurance companies by focusing on the key factors. Additionally, it can be used to establish an internal control system to prevent fraudulent financial statements in Indonesian insurance companies.

For regulators, this research provides a foundation for creating policies to regulate Indonesian insurance companies in accordance with accounting standards, OJK regulations, ministerial regulations, and relevant laws. It also serves as a basis for educating, warning, reprimanding, and penalizing Indonesian insurance companies for any fraudulent financial statements.

This study has some limitations, such as: (1) The sample only comes from the insurance industry, meaning that the findings cannot be generalized to companies related to fraudulent financial

statements involving diamond fraud. (2) The sample only includes data from 11 insurance companies in the same sector over a period of 5 years, which may not be sufficient for data analysis and may result in non-normal distribution of outliers for the variables used.

This study recommends additional research to be done: (1) A future researcher can create a regression model to anticipate fraudulent financial statements related to diamond fraud by utilizing moderator and mediator variables (such as firm size, industry risk and audit quality). (2) Another researcher can establish various dummy variables for the capability and rationalization variables to make them proportional to the proxies used for pressure and opportunity variables.

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