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FRAUD TRIANGLE FACTORS INFLUENCING ACCOUNTING FRAUD IN INDONESIA

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ABSTRACT

Accounting fraud in Indonesia remains a recurring issue faced by many companies. The fraud triangle theory explains that fraud may occur due to pressure, opportunity, and rationalization. This study aims to examine the factors that contribute to accounting fraud from the perspective of the fraud triangle. The sample comprises financial reports from 26 property companies listed on the Indonesia Stock Exchange between 2021 and 2022. Logistic regression was used as the analytical tool. The findings show that external pressure, industry conditions, and rationalization have no significant effect on fraud, while audit quality does influence accounting fraud. This study is expected to provide insights for companies to anticipate accounting fraud by implementing preventive measures within their organizations.

Introduction

Accounting is an information system that provides reports on a company's economic activities and business conditions for the purpose of financial reporting (Warren *et al.*, 2016). Accountants are expected to uphold good corporate governance within a company by ensuring transparency, accountability, responsibility, independence, and fairness (Winarso & Prayitno, 2022).

The importance of transparency and accountability in financial reporting was also emphasized by the Head of the Central Java Regional Office of the Ministry of Law and Human Rights, Yuspahruddin, during a budget report review meeting, particularly in ensuring compliance with government accounting standards (Immanulhaq & Permadi, 2023). Fraud cases can erode public trust, as illustrated by the Adani Group scandal, in which the company's stock value dropped significantly following revelations of a decades-long accounting fraud scheme (Trinugraheni, 2023).

Fraud can be briefly defined as deception, contrary to truth or fairness (Singleton, 2010). It is commonly explained using the fraud triangle framework, which consists of pressure, opportunity, and rationalization. Fraud is generally classified into two types: financial statement fraud and asset misappropriation (Arens *et al*., 2017).

According to Arens *et al.* (2017), the three main causes of fraud are pressure, opportunity, and rationalization. Financial pressure or a company's deteriorating financial condition may drive individuals to

manipulate financial reports. Weak or ineffective internal controls may create opportunities for fraud. Rationalizing fraudulent acts or the absence of strong ethical values may also lead someone to commit fraud.

The research conducted by Hutajulu *et al.* (2024) states that fraud in financial reports is caused by pressure, opportunity, and individual factors. Based on the research findings, it was also found that fraud in Indonesia is often carried out by people from the middle class. Other studies also show that pressure encourages someone to commit financial reporting fraud, while opportunities and rationalizations do not have an effect (Olinda and Nazar, 2025).

Wu *et al*. (2022) suggest that fraud can be prevented by leveraging information from companies, public accounting firms, and auditors. Fraudulent behavior often follows identifiable patterns. Companies involved in accounting fraud tend to hire auditors who have previously issued unqualified opinions for other fraudulent companies.

A study by Ardiyani and Utaminingsih (2015) , which investigated fraud based on the fraud triangle, found that external pressure, the nature of the industry, rationalization, and audit quality had no significant impact on financial statement fraud. In contrast, research by Kayoi and Fuad (2019) indicated that external pressure and financial targets did influence financial reporting fraud.

Due to these inconsistent findings, this study aims to re-examine the factors that influence fraud through the lens of the fraud triangle. The selected factors include external pressure, the nature of the industry, rationalization, and audit quality, to assess their influence on financial statement fraud.

This study examines external pressure as one of the influencing factors, which typically refers to financial obligations such as debt. A higher level of debt may increase the likelihood of financial statement fraud within a company, as significant debt creates financial pressure. Another contributing factor is the nature of the industry, which relates to the company's economic environment or the regulations governing its sector. The nature of the industry will be measured using inventory, as inventory is one of the most frequently manipulated assets, including through theft (Ardiyani & Utaminingsih, 2015).

Another factor identified in the fraud triangle is rationalization, which refers to the justification made by employees or individuals who commit fraud. The more a person rationalizes fraudulent behavior, the more likely it is to result in financial statement fraud.

The final factor to be examined is audit quality. Audit quality reflects the extent to which audit results provide valuable and reliable information to users of audit reports. High-quality audits are expected to reduce fraudulent behavior or mitigate the occurrence of financial statement fraud (Ardiyani & Utaminingsih, 2015).

Based on the discussion above, the researcher proposes the following hypotheses:

H1: External pressure affects accounting fraud.
H2: Nature of the industry affects accounting fraud.
H3: Rationalization affects accounting fraud.
H4: Audit quality affects accounting fraud.

Research Method

This study employs a quantitative approach to examine the influence of fraud triangle factors on accounting fraud. The sample consists of 26 property companies listed on the Indonesia Stock Exchange from 2021 to 2022 (post covid era). Researchers conducted studies after the covid transition due to many economic issues during and after covid, which increased the likelihood of fraud (Kagias *et al.*, 2022). As the study involves multiple independent variables and includes a dummy variable, logistic regression analysis is applied. Logistic regression tests whether the probability of the dependent variable can be predicted based on the independent variables. It is suitable when the independent variables are a mix of continuous and categorical data (Ghozali, 2021).

Results And Discussion

This study uses data from 26 property companies listed on the Indonesia Stock Exchange to observe the impact of the COVID-19 pandemic on the financial reports of property companies in Indonesia. The following figure presents the descriptive data collected from property companies' financial reports for the years 2021 and 2022:

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TE	52	.0745053	6.8764927	.640721316	1.226811448
KI	52	-529.2978142	19.8125451	-10.0915687	73.73416203
RS	52	-2.0924E+12	1.02079E+12	-2.0375E+11	5.65209E+11
KA	52	.00	1.00	.2692	.44789
FR	52	.00	1.00	.3269	.47367
Valid N (listwise)	52				

Fig. 1. *Descriptive Data*
Source: SPSS Data Processing Results

The table below shows the results of the logistic regression analysis to examine the effect of the independent variables on the dependent variable:

Table 1. Logistic Regression Data Processing Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.550[a]	.302	.243	.41216	1.891

a. Predictors: (Constant), KA, RS, TE, KI

b. Dependent Variable: FR

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.458	4	.865	5.089	.002[b]
	Residual	7.984	47	.170		
	Total	11.442	51			

a. Dependent Variable: FR

b. Predictors: (Constant), KA, RS, TE, KI

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	VIF
1	(Constant)	.163	.076		2.136	.038		
	TE	.076	.047	.198	1.614	.113	.988	1.012
	KI	.000	.001	.061	.499	.620	.986	1.014
	RS	7.784E-14	.000	.093	.760	.451	.993	1.007
	KA	.501	.130	.474	3.853	.000	.982	1.018

a. Dependent Variable: FR

Source: SPSS Data Processing Results

Based on the data above, several conclusions can be drawn:

• External pressure does not affect accounting fraud. As shown in Table 1, the significance value is $0.113 > 0.05$, leading to the rejection of the hypothesis. This finding aligns with Ardiyani and Utaminingsih (2015), who found that financial pressure has no effect on financial statement fraud. Financial pressure alone may not drive someone to commit fraud, as other factors could be more influential.

• Industry conditions do not affect accounting fraud. Table 1 shows a significance value of $0.620 > 0.05$, resulting in the rejection of the hypothesis. This result is consistent with Ardiyani and Utaminingsih (2015), who also found that industry conditions do not influence financial statement fraud. Regardless of the industry's condition, companies may still acknowledge their sectoral challenges, especially during the pandemic.

• Rationalization does not affect accounting fraud. Table 1 shows a significance value of 0.451, indicating that the hypothesis is rejected. This is in line with the findings of Ardiyani and Utaminingsih (2015), which suggest that rationalization does not influence financial statement fraud. A person's tendency to rationalize fraud does not necessarily lead them to commit it, as other factors may play a more dominant role.

• Audit quality affects accounting fraud. Table 1 shows a significance value of $0.000 < 0.05$, indicating that the hypothesis is accepted. This result contrasts with Ardiyani and Utaminingsih (2015), who found that audit quality had no effect on financial reporting fraud. High-quality audits are expected to uncover fraudulent activities within the audited companies.

Conclusions

Based on the data analysis results, it can be concluded that external pressure, the nature of the industry, and rationalization do not affect accounting fraud. This may be due to the presence of other, more influential factors. In contrast, audit quality does have an effect on accounting fraud, as high-quality audits are expected to detect fraudulent activities in a company's financial statements.

The limitations of this study include the restricted data collection period and the limited range of factors examined. Future research is advised to extend the observation period to cover the transition from pandemic to endemic phases, in order to assess whether instances of fraud increase or decrease—especially among property companies affected by the COVID-19 pandemic. Further studies may also consider incorporating other dominant variables that influence accounting fraud, particularly types of fraud that commonly occur in Indonesia. This study is expected to raise awareness of the various factors that contribute to accounting fraud.

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