

**EFFECT OF FRAUD DIAMOND ON FRAUD FINANCIAL STATEMENT  
DETECTION WITH AUDIT COMMITTEE AS MODERATION  
VARIABLES IN MANUFACTURING COMPANIES LISTED IN  
INDONESIA STOCK EXCHANGE  
IN THE PERIOD OF 2015-2017**

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**Abstract:** This study aims to determine the effect of Financial Stability, External Pressure, Financial Targets, Personal Financial Needs, Industrial Conditions, Monitoring Ineffectiveness, Auditor Change, Board of Directors Change to Fraud Financial Statement Detection with Audit Committee as Moderating variables in Companies listed on the Indonesia Stock Exchange Period 2015-2017. The population in this study amounted to 160 companies. The sampling method uses purposive sampling and the number of observation samples is 60 companies. This type of research is descriptive quantitative by testing classical assumptions and Multiple Regression Analysis (MRA) tests using two regression equations. The results of testing the data show that simultaneously and partially all independent variables have no effect on Fraud's Financial Statement Detection. The second equation shows all the independent variables have a significant effect on Fraud's Financial Statement Detection. Partially Financial Stability and Financial Stability Interaction affect Fraud's Financial Statement Detection. Whereas External Pressure, Financial Targets, Industrial Conditions, Monitoring Ineffectiveness, Auditor Change, Board of Directors Change, Interaction of External Pressure, Interaction of Financial Target, Interaction of Industrial Conditions, Interaction of Monitoring Ineffectiveness, Interaction of Auditor Change and Interaction of Directors Change did not affect Fraud's Financial Statement Detection.

**Keywords:** Diamond fraud, pressure, ability, rationalization

## **1. INTRODUCTION**

The quality of financial statements relates to the performance of the company that is described in the company's profits. To provide useful and useful information to interested parties, the information conveyed in the financial statements must meet the qualitative characteristics, namely financial statements must be understandable, relevant, reliable and comparable. Thus the financial statements will be able to provide a true picture to all parties who have an interest in the management of resources and compliance with laws and regulations.

The fact that is happening now is often found invalid financial statements or called Accounting Fraud. Fraud of financial statements is a misstatement or neglect of the amount and intentional disclosure with the intention of deceiving or deceiving users of financial statements. The impact of this fraud is that the information presented in the company's financial statements does not describe the actual condition of the company.

This can harm investors and other stakeholders. However, until now this has been carried out by the company management as can be seen from several fraud cases such as PT Timah Tbk (2015) conducting financial statements by presenting profits even though they were suffering 59 M losses, PT SNP Finance (2018) committed document falsification, fraud and money laundering and fictitious credit issuance to cause a loss of 14 trillion. From this phenomenon, it can be seen that there are still many companies that commit fraud in the presentation of financial statements. Every year fraud cases always occur and become a problem for companies and interested parties.

## **2. LITERATURE REVIEW**

### **2.1. Agency Theory**

Agency theory proposed by Jensen and Meckling (1976) states that agency theory can explain the relationship between owners and shareholders (principal) with management (agents). In the case of financial statement fraud, one form of conflict that underlies the occurrence of fraud is due to differences in interests between the principal and the agent.

Recognizing the importance of the content of information contained in the report, the manager becomes motivated to improve the performance of his company so that in such a way managers can maintain their existence and get a bigger reward or bonus. However, the reality in the field shows that there are several managers who have not succeeded in achieving their performance goals so that the information that will be published in the financial statements does not satisfy some parties, especially the principal as shareholders and owners of the company. Therefore, the existence of these problems sometimes management is willing to commit fraud so that the information in the financial statements looks good and can help the agent to fulfill their interests.

### **2.2. Financial Statement Fraud**

Fraud of financial statements is a deliberate misstatement including ignoring the numbers or disclosures in the financial statements to trick the users of financial statements based on malicious intent to profit by influencing their perceptions of the entity's performance and profitability and fraudulent financial statements against the law with intentional elements such as presenting financial statements that are presented improperly with the aim of taking profits (Tuanakotta, 2014).

Wolf and Hermanson (2004) introduce the Diamond Theory Fraud model which presents another view of fraud factors. This theory adds "ability" to the fourth variable from Fraud Triangle. Wolf and Hermanson believe fraud will not occur without the right people with the right ability to implement fraud. They also suggested four observational traits for committing fraud. Fraud can be either personal pressure, work pressure, or external pressure and each type of pressure can also occur due to financial and non-financial pressures (Gbegi & Adebisi, 2013).

### **2.3. Financial Stability**

Financial stability can change because it is caused by several factors, namely economic, industrial, or operating entity conditions such as high levels of competition or market saturation accompanied by declining margins, high

vulnerability to rapid changes, such as technological changes, obsolete products or interest rates change and rapid growth or unusual profitability, especially compared to other companies in the same industry.

#### **2.4. External Pressure**

External pressure is defined as excessive pressure on management to fulfill debt repayment requirements or other loan terms (Single, *Reacting Accounting Fraud Techniques*, 2016). A common pressure for companies to manipulate financial statements is the decline in the company's financial prospects. For example, a decrease in profits might threaten the company's ability to obtain funding. Companies may also manipulate profits to meet analysts' forecasts or benchmarks such as the previous year, to meet the limits of debt contracts, or to artificially increase stock prices (Single, *Fraud and Fraud Prevention*, 2016).

#### **2.5. Financial Target**

Financial targets are achievements or targets of a company that must be achieved so that the company will produce good financial statements. In this study financial targets are measured using return on assets. The higher the value of ROA shows the better performance of the company in managing company assets to generate corporate profits, on the contrary, if the value of a company's ROA is lower, then the performance of the company will decrease, motivating management to fraudulently report financial results (Subramanyam & Wild, 2010).

#### **2.6. Personal Financial Need**

Personal financial need is a situation where the company's finances are also influenced by the financial condition of the company's executives. Managers or company executives face pressure to cheat financial statements when their personal financial conditions are threatened by the company's financial performance. So that company executives who have share ownership can influence management policies in disclosing the company's financial performance.

#### **2.7. Nature of Industry**

Nature of industry is regard to the presence of risks to companies in the industrial sector involves significant considerations that are far greater usually depending on inventory estimates. Nature of industry in this study is measured by inventory, where inventory is the material or goods stored that will be used to meet certain objectives.

#### **2.8. Ineffective Monitoring**

The ineffectiveness of supervision that is proxied by the proportion of board of commissioners is the policy of controlling the number of companies, so it is expected that the more the number of board of commissioners, the less chance the directors will make savings on financial statements (Mardiani, Sukarmanto, & Maemunah, 2017).

#### **2.9. Change in Auditor**

Reliable information is needed in every economic decision making. In the business world, information will be more trusted if the information is strengthened by an independent party. We recommend that an independent auditor is an auditor who, if found a violation, will independently report the violation and is an external auditor (Public Accountant Office) (Agoes, 2013).

## 2.10. Change in Director

There are conditions related to the ability to cause fraud, namely the Change of Directors. The board of commissioners has the duty to supervise and advise the directors in managing PT. The Board of Directors and Board of Commissioners in carrying out their duties must be based on responsibility, good faith, and prudence (Kuswiratmo, 2016).

## 2.11. Audit Committee

One of the responsibilities of the Audit Committee is to assess audit reports from external auditors as well as connect the board of commissioners and the competencies possessed by the Audit Committee are expected to optimize the function of external auditors for the company, so that the Financial Statement can be minimized or even avoided. The measurements used to measure the Audit Committee in this study are: (Effendi, 2009)

## 2.12. Hypothesis

The hypotheses in this study are as follows:

1. Financial Stability, External Pressure, Financial Targets, Personal Financial Needs, Industry Conditions, Monitoring Ineffectiveness, Change of Auditor and Change of Directors to Detecting Financial Statement of Fraud
2. The Audit Committee can moderate the influence of Financial Stability, External Pressure, Financial Targets, Personal Financial Needs, Industrial Conditions, Ineffective Supervision, Change of Auditors and Change of Directors to Detecting of Financial Statement of Fraud

## 3. METHOD

The type of research used is quantitative descriptive research. Quantitative descriptive research, namely explaining, testing the relationship between phenomena and determining causality of variables. Causality is a type of research with the aim of testing cause and effect between 2 or more variables (Sunnyoto, 2013). The sample used in this study is financial report data for the period 2015-2017. The sampling technique is purposive sampling. From the results of the selection of samples, 20 companies will be used as research objects.

No	Information	Total
	Study population: Manufacturing companies listed on the Indonesian stock exchange in the period 2015-2017	160
<b>Criteria:</b>		
1.	Manufacturing companies that are not consecutively listed on the Indonesia Stock Exchange for the period 2015-2017	(23)
2.	Manufacturing company that does not present financial statements in rupiah	(28)
3.	Manufacturing companies that suffered losses in the 2015-2017 period	(47)
		(42)

4. Manufacturing companies that do not have managerial share ownership	
<b>The number of samples obtained</b>	<b>20</b>
<b>Number of observation samples = 20 x 3</b>	<b>60</b>

The data analysis method used in this study is the statistical analysis method with the help of SPSS 21 program. In this study used multiple linear regression models and Multiple Regression Analysis (MRA) Interaction Test. Multiple linear regression analysis is done to find out how much the relationship between the dependent variable and the independent variable.

#### 4. Results And Discussion

##### 4.1. Result

Descriptive statistics are used to provide an overview of the data used in research, therefore the minimum, maximum, and average values of each variable can be known.

	N	Minimum	Maximum	Mean	Std. Deviation
<i>Fraud</i>	60	-2,18309	3,17078	,0136218	,90245808
Audit committee	60	3	4	3,12	,324
Financial stability	60	-,27503	,58866	,0883897	,14178957
External pressure	60	,00048	,81972	,3131160	,18013125
Financial target	60	,00067	,26404	,0766830	,05952219
Personal financial needs	60	,00000	1,00000	,1227180	,21321017
Industrial conditions	60	-1,04706	,36910	-,0206283	,15675219
Ineffective supervision	60	,20000	,50000	,3716100	,09391921
Auditor change	60	0	1	,20	,403
Change of directors	60	0	1	,28	,454
Valid N (listwise)	60				

##### Testing of the First Hypothesis

Based on the results of testing the coefficient of determination, it can be seen that the R square value is equal to -0.108, which means that Fraud's Financial Statement variable of -10.8% can be explained by Financial Stability, External Pressure, Financial Targets, Personal Financial Needs, Industrial Conditions, Monitoring Ineffectiveness, Auditor Change and Directors Change while the rest is explained by other variables not examined in this study.

Based on the simultaneous significance test known Sig Value = 0.926 > 0.05. Thus, H0 is accepted and H1 is rejected which means jointly the variables of Financial Stability, External Pressure, Financial Target, Personal Financial Needs, Industrial Conditions, Ineffective Supervision, Auditor Change and Change of Directors have no significant effect on Fraud's Financial Statement on the company manufacturing listed on the Indonesia Stock Exchange for the period 2015-2017.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	,091	,883		,103	,918
Financial Stability	-1,170	1,546	-,137	-,757	,453
External pressure	-,730	,885	-,133	-,826	,413
Financial Targets	,074	,119	,102	,618	,540
Personal Financial Needs	-,619	,988	-,100	-,626	,535
Industry Conditions	-,163	2,327	-,011	-,070	,944
Ineffectiveness of Supervision	-,512	,638	-,135	-,802	,427
Change of Auditor	,110	,358	,047	,308	,760
Change of Directors	-,141	,367	-,067	-,384	,703

Significance value of variable Financial Stability, External Pressure, Financial Targets, Personal Financial Needs, Industrial Conditions, Ineffective Supervision, Auditor Change and Change of Directors greater than  $\alpha = 0.05$ , it can be concluded that all independent variables have no partial effect on Financial Detection Statement of Fraud.

**Fraud Financial Statement** = 0.091 - 1,170 financial stability - 0.730 external pressure + 0.074 financial targets - 0.619 personal financial needs - 0.163 industrial conditions - 0.512 oversight ineffectiveness + 0.110 change of auditor -0.141 change of directors

### Testing of the Second Hypothesis

Based on the results of testing the coefficient of determination it is known that the value of R Square is equal to 0.304 which means that the Financial Statement Financial variable of 30.4% is explained by Financial Stability, External Pressure, Financial Targets, Personal Financial Needs, Industrial Conditions, Monitoring Ineffectiveness, Change of Auditor, Change of Directors, Interaction of Financial Stability with Audit Committee, Interaction of External Pressure with Audit Committee, Interaction of Financial Target with Audit Committee, Interaction of Personal Financial Needs with Audit Committee, Interaction of Industrial Conditions with Audit Committee, Interaction of Ineffectiveness of Supervision with Audit Committee, Interaction of Auditor Change with Committee Audit and Interchange of Interactions of the Change of Directors with the Audit Committee while the remaining 69.6% is explained by other variables not examined in this study.

Based on known F test Sig = 0,008 <0,05 can be concluded that simultaneously Financial Stability, External Pressure, Financial Targets, Personal Financial Needs, Industry Conditions, Supervision Ineffectiveness, Change of Auditor, Change of Directors, Interaction of Financial Stability with Audit Committee, External Pressure Interaction with the Audit Committee, Financial Target Interaction with the Audit Committee, Interaction of Personal Financial Needs with the Audit Committee, Interaction of Industrial Conditions with the Audit Committee,

Interaction of Ineffective Supervision with the Audit Committee, Interaction of Change of Auditor with Audit Committee and Interaction of Change of Directors and Audit Committee Simultaneous significant effect on Fraud Financial Statement on manufacturing companies listed on the Indonesia Stock Exchange for the period 2015-2017.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-,011	,876		-,013	,990
Financial Stability	-44,125	14,314	-,515	-3,083	,004
External pressure	26,909	26,457	,491	1,017	,316
Financial Targets	,143	,161	,181	,891	,379
Industrial conditions	,836	6,328	,058	,132	,896
Ineffectiveness of Supervision	-3,355	15,826	-,886	-,212	,833
Change of auditor	-21,638	12,154	-,929	-1,780	,083
Change of directors	-6,394	12,237	-,301	-,522	,605
Interaction_x1z	13,917	4,623	,534	3,011	,005
Interaction_x2z	-9,174	8,782	-,514	-1,045	,303
Interaction_x3z	-,021	,048	-,086	-,436	,665
Interaction_x4z	-,083	,273	-,040	-,305	,762
Interaction_x5z	-,776	2,448	-,144	-,317	,753
Interaction_x6z	,937	5,244	,981	,179	,859
Interaction_x7z	7,158	4,040	,958	1,772	,085
Interaction_x8z	2,177	4,075	,344	,534	,596

From the results of the multiple regression analysis the significance value of Financial Stability was moderated by the Audit Committee with a significance level of 0.005 smaller than  $\alpha = 0.05$ , it can be concluded that the Audit Committee strengthened the influence of Financial Stability on Fraud's Financial Statement Detection. Whereas the Interaction of External Pressure, Target Financial Interaction, Interaction of Personal Financial Needs, Interaction of Industrial Conditions, Interaction of Ineffective Supervision, Interaction of Auditor Change and Interaction of Director Change, namely the Audit Committee weakens the influence of External Pressure, Financial Targets, Personal Financial Needs, Ineffective Supervision, Auditor Change, Director Change on Fraud's Financial Statement Detection.

Model	Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
					Tolerance
1 Personal Financial Needs	-444,992 <sup>a</sup>	-,303	,764	-,051	6,686E-9

Based on the table above, it is known that there is one variable that is declared inadequate to be included in the regression equation, namely the Personal Financial Needs variable measured by managerial ownership, can be seen from the minimum value of Personal Financial Needs which is 0.0000 which means that the company is sampled in this study has a very low percentage of share ownership by managerial

parties so that the data is referred to as the missing values. Regression equation formed from testing the second hypothesis, namely as follows:

$$\begin{aligned} \text{Fraud Financial Statement} = & -0,011 - 44,125 \text{ Financial Stability} + 26,909 \\ & \text{External Pressure} + 0,143 \text{ Financial Target} + 0,836 \\ & \text{Industrial Conditions} - 3,355 \text{ Monitoring} \\ & \text{Ineffectiveness} - 21,638 \text{ Auditor Change} - 6,394 \\ & \text{Directors Change} + 13,917 \text{ Interactions X1 * Z} - \\ & 9,174 \text{ Interactions X2 * Z} + 0,021 \text{ Interactions X3 *} \\ & \text{Z} - 0,083 \text{ Interactions X4 * Z} - 0,776 \text{ Interactions X5} \\ & * \text{Z} + 0,937 \text{ Interaction of X6 * Z} + 7,158 \text{ Interaction} \\ & \text{of X7 * Z} + 2,177 \text{ Interaction X8 * Z} \end{aligned}$$

## 4.2. Discussion

### 1. The Effect of Financial Stability, External Pressure, Financial Targets, Personal Financial Needs, Industrial Conditions, Ineffective Supervision, Change of Auditors and Change of Directors to Detection of Financial Statement of Fraud

Financial stability which is proxied by the ratio of changes in total assets does not affect the financial statement of fraud. The results of the study are in line with the results of the study (Rahmayuni, 2018) but do not support research (Mardiani, Sukarmanto, & Maemunah, 2017). Financial Stability has no effect in Fraud's Financial Statement Detection. This is because the company has a high and stable change in total assets so that fraud in the presentation of financial statements can be avoided.

External pressure which is proxied by leverage does not affect the detection of Financial Statement of Fraud. The results of this study are in line with the results of the study (Rahmayuni, 2018) but are not in line with the results of the study (Mardiani, Sukarmanto, & Maemunah, 2017) and (Husmawati, Husmawati, Septriani, & Handayani, 2017). influence management in committing fraud. This is because the company has a high leverage but can be controlled by the management of the company by setting a maximum loan limit.

Financial targets that are proxied by return on assets (ROA) do not affect Fraud's Financial Statement designer. The results of this study are in line with the results of the study (Annisya, Lindrianasari, & Asmaranti, 2016) but are not in accordance with the results of the study (Rahmayuni, 2018). management is determined whether it is still reasonable or not.

Personal Financial Needs that are proxied by managerial ownership do not have a significant effect on Fraud's Financial Statement Detection. The results of this study are in line with the research (Naibaho, 2018) but not in accordance with the results of the study (Murtanto, 2016). This happens because managerial ownership of the company sampled in this study is still very low at 12%.

Industrial conditions that are proxied by changes in inventory do not affect Fraud's Financial Statement Detection. The results of this study are in line with the research (Rahmayuni, 2018) but are not in line with the research (Murtanto, 2016). This happens because there is a good internal control within the company, so that the



company is able to handle the separation of duties between the physical store of inventory and the holders of accounting records for inventory

Ineffectiveness of Supervision does not affect Financial Detecting statement of fraud. The results of this study are in line with (Indriani & Terzaghi, 2017) but, in contrast to the results of the study (Mardiani, Sukarmanto, & Maemunah, 2017). This happens because the average industrial company only fulfills the formal provisions of the Indonesia Stock Exchange which requires that there be at least 30% of independent commissioners, so that no one oversees management to properly cheat financial statements.

Auditor Substitution does not affect Fraud's Financial Statement Detection. The results of this study are consistent with the research (Mardiani, Sukarmanto, & Maemunah, 2017) but, not in line with the research (Rahmayuni, 2018). This happens because companies change their auditors not to eliminate audit trails or companies make big mistakes, but companies need more independent and objective auditors in conducting audits in the interest of improving company performance in the future.

Change of Directors does not affect Fraud's Financial Statement Detection. The results of this study are in accordance with the research (Rengganis, Sari, Budiasih, Wirajaya, & Suprasto, 2019) but, different from the results of the study (Bawekes, Simanjuntak, & Daat, 2018). Change of directors can be an attempt by the company to improve the performance of the previous directors by making changes to the composition of the board of directors or the recruitment of new directors who are considered more competent than the previous directors.

## **2. The Effects of Interaction of Financial Stability, Interaction of External Pressure, Interaction of Financial Target, Interaction of Personal Financial Needs, Interaction of Industrial Conditions, Interaction of Ineffective Supervision, Interaction of Change of Auditors and Interaction of Change of Directors and Audit Committee as Moderating the Detection of Financial Statement Fraud**

The results of this study indicate that the Audit Committee can strengthen the influence of Financial Stability on Fraud's Financial Statement Detection. This shows that when management receives pressure in maintaining financial stability as measured by changes in total assets, the presence of the Audit Committee will not contribute to fraudulent financial statement preparation.

This shows that when management receives pressure from the company's external parties and tends to commit fraudulent financial statements, the Audit Committee will contribute to fraudulent financial statements.

The results of this study indicate that the Audit Committee weakened the influence of Financial Targets on Fraud's Financial Statement Detection. This shows that when management or operational employees are under intense pressure to achieve financial targets made by members of the board of directors and supervisors, including sales targets and incentive targets based on the level of profit, they must cheat on financial statements, but the Audit Committee does not contribute anything in the action.

The results of this study indicate that the Audit Committee weakened the influence of Personal Financial Needs on Fraud's Financial Statement Detection. This shows that when management has a majority stake in the company, the company's finances will also be influenced by the financial condition of the company's executives. This can happen when managerial ownership is getting bigger, so the possibility of management to fulfill the principal's desire which is also itself is also greater.

The results of this study indicate that the Audit Committee weakened the influence of the Ineffectiveness of Supervision of Fraud's Financial Statement Detection. This shows that fraud occurs because of the lack of an effective supervisory unit and the commissioner is not independent in supervision. Because the Audit Committee has carried out its duties, responsibilities and authorities, one of which is to review and provide advice to the Board of Commissioners regarding the potential conflict of interest and identify matters that require the attention of the Board of Commissioners.

The results of this study indicate that the Audit Committee weakened the effect of Auditor Substitution on Fraud's Financial Statement Detection. This shows that the Auditor Substitution in causing fraud, the Audit Committee does not contribute in the event of fraud or failure.

The results of this study indicate that the Audit Committee weakened the influence of the Board of Directors' Change on Fraud's Financial Statement Detection. The Audit Committee has the authority to obtain various information and access data and documents related to the Company that support its supervisory function. In carrying out this authority, the Audit Committee can communicate directly and cooperate with Internal Audit and other management functions.

## **5. CONCLUSION AND SUGGESTION**

### **5.1. Conclusion**

Based on the results of the research and discussion presented, it can be concluded as follows:

1. Based on partial tests Financial stability, external pressure, financial targets, personal financial needs, industrial conditions, ineffectiveness of supervision, change of auditors and change of directors have no effect on detecting financial statement fraud in manufacturing companies listed on the Indonesia Stock Exchange 2015-2017.
2. Based on the interaction test, the Audit Committee strengthened the influence of Financial Stability on Fraud's Financial Statement Detection. While the Interaction of External Pressure, Target Financial Interaction, Interaction of Personal Financial Needs, Interaction of Industrial Conditions, Interaction of Ineffective Supervision, Interaction of Change of Auditors and Interaction of Change of Directors weakened the influence of External Pressure, Financial Targets, Personal Financial Needs, Ineffective Supervision, Change of Auditors, Turnover of Fraud's Financial Statement Detection.

### **5.2. Suggestion**

The suggestions in this study are as follows:

1. For the Company's Management, the results of this study are expected that the management must still maintain the company's financial condition is stable and still improve internal supervision
2. For Investors, from the results of this study it is expected that investors remain cautious in investing, even though in this study shows that there is no influence between the independent variable and the dependent variable
3. For Researchers Furthermore, those who want to do similar research are expected to replace the object of research other than Manufacturing or all Companies Listed on the Indonesia Stock Exchange.

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