The fraud triangle: factors causing fraud in government financial reports

Triângulo da fraude: fatores que causam fraude em relatórios financeiros governamentais

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ABSTRACT

Fraud Terms in financial reports, it is an action or deed that can cause reporting errors in financial reports, where this action is an action carried out intentionally to gain personal benefit from the resources available in the company or certain field that is being undertaken. This action is often carried out by a person or management by manipulating financial reports or in Indonesia is often referred to as corruption. The aim of this research is to conduct a literature review regarding the factors that cause fraud in the preparation of financial reports. In examining these financial reports, the auditor is tasked with and is expected to be able to detect fraud before concluding whether a financial report is reasonable or unreasonable. There are several factors that can cause fraud based on literature studies that have been carried out by researchers, namely due to pressure, opportunities, and factors of rationalization or self-justification. This research was carried out using the literature study method or literature review of previous research related to the problem being researched, namely fraud. The results of the research obtained show
that several factors that cause fraud in financial reports are mostly due to pressure, opportunity and individual factors.

**Keywords:** fraud, financial reports, pressure, opportunities, rationalization.

**RESUMO**
Fraude Termos em relatórios financeiros, é uma ação ou ação que pode causar erros de relatório em relatórios financeiros, onde esta ação é realizada intencionalmente para obter benefício pessoal dos recursos disponíveis na empresa ou em determinado campo que está sendo realizado. Esta ação é muitas vezes realizada por uma pessoa ou gestão manipulando relatórios financeiros ou na Indonésia é muitas vezes referido como corrupção. O objetivo desta pesquisa é realizar uma revisão de literatura sobre os fatores que causam fraude na preparação de relatórios financeiros. Ao examinar estes relatórios financeiros, o auditor é encarregado de detectar fraudes antes de concluir se um relatório financeiro é razoável ou não razoável. Existem vários fatores que podem causar fraudes baseadas em estudos de literatura que foram realizados por pesquisadores, nomeadamente devido à pressão, oportunidades e fatores de racionalização ou autojustificação. Esta pesquisa foi realizada utilizando o método de estudo da literatura ou revisão da literatura de pesquisas anteriores relacionadas ao problema que está sendo pesquisado, ou seja, fraude. Os resultados da pesquisa obtida mostram que vários fatores que causam fraudes em relatórios financeiros se devem principalmente a pressões, oportunidades e fatores individuais.

**Palavras-chave:** fraude, relatórios financeiros, pressão, oportunidades, racionalização.

**1 INTRODUCTION**
As we can see today, the use of financial reports and all accounting processes always has a very important role in the world economy, especially Indonesia. What is meant by financial reports is the final result of all accounting records that have been carried out in one period. To examine and conclude whether the financial statements are fair or not can only be done by an auditor whose statements must not be influenced by any party. Apart from that, auditors are also expected to be able to detect fraud or irregularities in the financial reports being examined (Habbe et al., 2019). This is to see whether there are any misstatements or manipulations in the financial statements. Fraud also often occurs in government institutions which is often known as "corruption of public money". By general understanding corruption is abuse existing trust given by public nor owner interests. Fraud in sector government often happen on side reception funds, blackmail And Money bribery, theft public goods used For interest personal so that public No can feel benefits, and others again.

According to studies *Transparency International* on In 2013, Indonesia was on Ranked 64th as the most corrupt country in the world And Also is at on ranking First as
the most corrupt country in Asia Pacific. For that can, we conclude that level cheating in Indonesia is very serious high. By generally, there are 3 reasons or factors that occur reason somebody do fraud or fraud, namely: pressure, opportunity, and rationalization. Now this, there is so lots fraud cases that occur on various field government especially the bureaucracy. Every year, amount corruption in Indonesia continues increase and instead reduced. Commission Eradication Adult Corruption (KPK). This also often find cases like this, moreover in the government sector by people who want to take profit alone and ignore interest people moreover people small intermediate to bottom.

Corruption or acts of fraud have actually occurred frequently for a long time, even in everyday life this often happens (Cavaliere et al., 2021). If you look again, cheating can even occur in all things or areas of life. This cannot be separated from personal desires, opportunities, and the desire to take something from other people. However, the most common fraud occurs in the accounting sector, where the final result is financial reports (Sihombing et al., 2019). An accountant must present financial reports that are clear, honest and easy to understand. This financial report will also be used by investors as a reference for making decisions whether to continue investing or not. Therefore, honest and correct financial reports are needed so that there are no errors in decision making.

The question that often arises among the general public is why do individuals commit fraud? Why do officials with high positions and high incomes commit corruption most often? such as decision-making politicians, and even judicial institutions as the front guard in eradicating corruption, as well as NGO leaders who having a mission to eradicate corruption is actually involved in criminal acts of corruption? Again, the answer is because of need, greed, and also a greater opportunity to commit fraud. Especially at this time, needs are increasing and prices of goods are getting higher. This is one of the reasons individuals commit fraud. Then the presence of opportunity is also the biggest factor that causes someone to commit corruption. This can answer the previous question which says why high-ranking officials often commit corruption, because their position has more opportunities to do so. Furthermore, individual factors can also be the reason why someone commits fraud, this is the most intolerable reason because it originates from the individual himself. People like this always have self-righteous reasons and don't feel guilty about cheating. There will always be a reason why they cheat, most often for life reasons.
Based on the observations that have been made, several possible causes of fraud can also occur due to an uncomfortable and unpleasant work environment, for example superiors who treat employees unreasonably or act as they please, poor communication in the work environment, lack of appreciation or awards given to employees so that employees feel treated unfairly. This can also be the cause of someone committing fraud because they feel they are being treated badly. A good environment will certainly create a positive atmosphere and circumstances, thereby reducing the possibility of someone committing fraud for their own benefit.

_Fraud Triangle_ theory _Cressey_ (1953) through his research stated that a person or individual does it Fraud can _be_ caused by 3 factors, namely:

1. **Pressure**
   This condition is real pressure that can be caused by someone's real life conditions or fraudulent behavior which can be the reason someone commits fraud. This condition can be in the form of gambling habits, addiction to illegal drugs, or perhaps experiencing economic problems or lacking money for certain things.

2. **Opportunities**
   This condition is a condition where a person has the opportunity so that the perpetrator can have more freedom to commit fraud. This condition can be caused by weak internal controls, indiscipline, weaknesses in accessing information, no audit mechanism, and also apathy by perpetrators of fraud.

3. **Rationalization** (_Rationalization_)
   This condition is an important element in the occurrence of fraud. In this condition, the perpetrator will look for justification for the fraudulent actions that have been carried out. This justification can be in the form of an excuse that the fraudulent act was carried out to make the family and loved ones happy, or that the work period has been long enough so that one feels entitled to get more than what one is currently getting. So this comes back to each individual and is one of the factors that has to be overcome the most.

Another factor or reason someone can commit fraud is because of leadership style. Leadership style is a method used by leaders to influence employees to collaborate and work productively in order to achieve predetermined goals. A good leadership style will certainly get good performance from employees, and vice versa.
2 THEORITICAL REVIEW

Fraud can generally be defined as an unlawful act carried out by someone to gain their own benefit. This action can be carried out by people inside the organization or outside the organization. People in general or ordinary people often interpret it narrowly that fraud is a criminal act or corruption. In order to avoid fraud by certain individuals, valid laws are needed to take action against individuals who commit acts of fraud. This is a concrete action to prevent fraud in the financial reports presented. Currently, the law is often the first target for blame, calling the law weak or the people within it who are incompetent in implementing the applicable law. But apart from that, we must not just blame the law unilaterally because a lot of fraud that occurs originates from individuals themselves even though the law is already strict.

Cheating or Fraud in financial reports is an action carried out intentionally by one or more members of management, management, or employees or individuals by deceiving or manipulating to gain personal advantage and actions that are not legally valid. This fraud is carried out intentionally, of course without the injured party knowing or realizing it. As is the case in the government sector, officials or stakeholders who commit fraud or corruption, funds that should be the rights of all members of society, without the public themselves knowing, have been transferred to the property of the individual who committed the fraud. This is a problem that is very difficult to overcome or avoid, especially at this time. Instead of decreasing, cases of fraud are now increasingly common and have even become a daily occurrence for the public. It is common knowledge that government officials will always commit fraud to gain their own profits that are greater than what they should obtain in accordance with the legally applicable rules and laws. For this reason, awareness is needed from each individual that fraud committed will cause harm to other parties. The classification of cheating or fraud is:

1) Financial Statement Fraud
   This fraud can be interpreted as fraud in the form of material misstatements in the financial statements, where this error is an intentional act by the perpetrator (Saragih et al., 2022). Fraud committed can be in the form of financial fraud or non-financial fraud.

2) Storage of Assets
   This fraud is a form of fraud carried out by the perpetrator by keeping or stealing assets that are joint property into personal or personal property.

3) Corruption, Collusion, and Nepotism (KKN)
This fraud is the fraud that most often occurs in the government sector. Things that often happen nowadays in the government sector are abuse of authority/power carried out by government officials, bribery cases which are always an open secret in all circles of society, officials who often receive illegal money from interested parties are certainly a problem. the big one right now. Apart from that, the selection or appointment of government employees is also predominantly based on family relationships so that there is no opportunity for other generations who may be more competent, which will have an impact and be detrimental to the organization or company.

Fraud can be committed by anyone, if we look at the perpetrator, fraud can be classified as follows:

a. *fraud* or often referred to as red and white crime is a crime or fraud committed by important people or people in higher positions in an organization. This fraud usually takes the form of violating duties that are not carried out in accordance with applicable regulations, not carrying out obligations, and neglecting responsibilities that should be carried out. Fraud committed can also take the form of misappropriation, theft, or deliberately taking property that has been entrusted to him. This is done because of a higher social status so that it gives the impression that they can do whatever they want and often pass on their responsibilities to people of lower social status.

b. *Fraud* by employees is a dishonest act carried out by an employee that causes losses to the entity even though management has basically taken precautions. This fraud originates from the employees themselves so it is difficult to overcome.

c. *Fraud* from outside the organization is fraud committed by suppliers, contractors and others who may be in contact, causing losses. This can take the form of fraud in the delivery of goods, work or services which causes losses to the recipient.

2.1 FRAUD THEORIES

*Fraud* theories that will be explained in this research, including the following:

1. Triangle Fraud
The Fraud Triangle developed by Donald R. Cressey in his theory states that there are three factors that cause why someone commits fraud, including pressure, opportunity, and justification or rationalization.

2. Fraud Diamond

Fraud diamond is a development of the fraud triangle. This theory states that fraud can occur because it is caused by four factors, namely pressure, opportunity, justification, and capability.

3. Gone Theory

This theory identifies that fraud can be caused by four factors, namely greed, opportunity, need factors and disclosure factors.

Basically, everyone can commit fraud or fraud in everyday life. Even people who we view as honest and religious can even be involved in cases of fraud. Or maybe someone we know comes from a wealthy family, with a high educational background, from a respected social environment, and could even be involved in cases of cheating or fraud. Another view from the side of human behavior, explained by Bologna in 1987 based on the GONE theory, which consists of four factors that encourage someone to carry out deviant behavior or commit fraud, namely greed, opportunity and disclosure factors. The greed in question is related to the greedy behavior that potentially exists within every person. This of course comes from the individual himself who finds it difficult to feel enough and always wants to get more. Then there is an opportunity related to the condition or circumstances of the organization or agency which is such that it provides an opportunity for someone to commit an act of fraud or fraud. Needs relate to what each individual needs to support their life which they think is reasonable, and disclosure relates to the actions or consequences that will be faced by the perpetrator of fraud if the perpetrator is discovered or caught committing fraudulent acts. In this case, researchers will conduct research which aims to see what factors cause someone to commit fraud or irregularities in a company or government agency.

3 RESEARCH METHOD

The method used in this research is a literature study or literature review where the researcher uses the results of relevant previous research to obtain results and answers to the problem given. This research uses a qualitative approach because the data produced is in the form of words or descriptions. Qualitative research is defined as research where the results are in the form of narratives or descriptions and not numbers. Literature research
is research where the source of the study is the library or literature. In this study, research was carried out by utilizing the results of previous relevant research that is similar or related to the factors that cause fraud or fraud in financial reports, especially in the government sector. So the results obtained are conclusions from previous research without conducting direct research or only using secondary data.

4 RESULTS

In accordance with the results of previous research which was used as material for a literature review, it was found that various factors were the causes of fraud in financial reports. Based on research conducted by Heru Purwanto (2018) entitled Factors that influence the tendency to commit fraud: analysis of the perception of ASN in Indragiri Hulu Regency, it was found that the main factor that causes fraud is due to pressure, which becomes stronger due to inappropriate compensation. The higher the possibility of fraud and vice versa, if the pressure caused by inappropriate compensation is smaller, the possibility of fraud will also be smaller. Then opportunity also has a positive and significant effect on the tendency for fraud to occur in the government sector in Indragiri Hulu Regency. If the opportunities resulting from inadequate internal control are greater or higher, then the possibility of fraud will also be higher. Likewise, if internal control is adequate, it will reduce the opportunity to commit fraud so that acts of fraud can be minimized. Reasons for justification also have a positive effect on the occurrence of fraud in the government sector, the fewer reasons for justification, the less likely it is that fraud will occur, and vice versa. The results of this research are also in line with the results of Fimanaya and Muhamad Syafruddin's research entitled the factors that cause fraud are due to pressure, opportunity and rationalization of the possibility of fraudulent financial statements.

Research on the factors that cause fraud in financial reports was also carried out by Hendrik Manosso in 2016. The results of his research showed that fraud can occur due to pressure. This can be caused by financial problems or the individual's own bad character. Then fraud can also occur because the control system is not optimal, giving officials the opportunity to commit fraud. Hendrik also mentioned that in financial management you must pay attention to aspects of the system and also the people. These two things must really be paid attention to so that good and correct financial reports are created. A good system alone cannot guarantee that financial reports can be presented correctly and honestly, but honesty from the people themselves is also needed. Likewise,
besides the people who are expected to be good, the system must also be good. Therefore, these two things are interrelated and support each other in producing good and correct financial reports.

Finally, the results of research conducted by Prapati regarding the factors that cause fraud to occur are due to injustice in organizations or agencies, inadequate internal control, inappropriate compensation received by individuals and also due to information asymmetry. This is supported by research conducted by Wawan and friends, that the factors that cause fraud in the government sector at the Semarang City Department are poor leadership style, ineffective internal control that applies within the agency or the culture that applies within the agency or organization.

5 CONCLUSION

Based on a review of several previous journals regarding the factors that cause fraud in financial reports, researchers can conclude that the most common fraud can be caused by three factors, namely pressure, opportunity/opportunity, and rationalization or self-justification. In this case, the role of the auditor is also very necessary to be able to detect fraudulent acts in the form of fraud and manipulation of financial reports that are deliberately carried out to obtain personal gain. This has a very bad impact, especially on the Indonesian government sector, especially with the current rise in corruption cases. For this reason, auditors are expected to be able to reduce opportunities for fraud, especially in the government sector, which will be detrimental to the state and many people, especially the lower middle class.
REFERENCES


