
Examining the Psychological Aspect: Fraudulent Financial Reporting in Property and Real Estate Companies Listed on the Indonesia Stock Exchange During the Covid-19 Pandemic using the Fraud Heptagon Approach

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Abstract. The fraud heptagon approach will be used in this study to analyze 20 or so real estate and property companies that are publicly traded on the Indonesian stock exchange. Fraudulent financial reporting is very common among these companies, particularly during the COVID-19 pandemic, as shown by the prevalence of financial statement fraud. This study compares the likelihood of fraud occurring in the years leading up and subsequent to the COVID-19 pandemic (2018–2019 and 2020–2021), with the aim of identifying trends. Analysis using the heptagon fraud approach affects the percentage level of fraudulent financial reporting in property and real estate companies that are listed on the Indonesia Stock Exchange. This study also uses the Beneish M-Score indicator which is based on the calculation of 8 financial ratios to identify whether a company has fabricated fraudulent financial reporting.

Keywords: Auditor, Fraudulent Financial Reporting, Fraud Heptagon, Financial Ratio

1. Introduction

Indonesia's economy suffered a decrease during the COVID-19 epidemic as a result of the deployment of PSBB by government to prevent the spread of Covid-19 due to infection with the SARS-CoV-2 coronavirus (Rahmawati et al., 2021). The pandemic period with the PSBB had a negative impact on all business sectors, one of which was the property and real estate sector (Sitohang, 2021). Based on the records of the Ministry of Finance, due to the demand from the community for primary necessities (property) other than being a place to live, the economy of the property and real estate sector started to fall in early 2020, namely investment as a long-term fixed asset that is not a top priority for the community (Devi et al., 2020). The existence of an economic recession during the COVID-19 pandemic has forced people to limit their economic, social, and mobility activities. The decline in public interest in the property and real estate sector has caused property and real estate companies in Indonesia to experience difficulties and obstacles in their sales. According to the Results of the Residential Property Price Survey (SHPR) of Bank Indonesia, property sales in 2020 will experience a decline due to several factors, including rising prices for building materials, licensing/bureaucratic issues, sizable deposits in mortgage applications, and taxation (Devi et al., 2020).

Companies in the real estate and property sectors have suffered numerous losses as a result of rising operating costs, but their revenues have fallen as a result of slowing sales growth (Sitohang, 2021). Because of this, a lot of businesses in the real estate and property sector engage in fraud to compensate for prior losses. Financial statement fraud is one of the crimes performed. Investors, creditors, market analysts, and other users use financial statements, which are written records that contain information on a company's financial activities and business activities, to assess the financial health and earning potential of a company when making (Gerald I. White, Ashwinpaul C. Sondhi, 2003). The use of financial reports for discussion and the recording of the financial achievements of a business over a specific time period.

Fraudulent Reporting Financial Information refers to the fraudulent presentation of financial statements, whether there are benefits or drawbacks to doing so, which are typically difficult to detect and cannot be prevented before the fraud occurs (Dodd, 2020). The goal is to maximize profit for both individuals and businesses. The Beneish M-Score methodology, a calculating methodology to help detect anomalous movements in financial statements, can be used to estimate financial reporting fraud for understatement or overstatement (Irsutami & Sapriadi, 2020). In addition to using the Beneish M-Score Model to calculate movements in financial reports, auditors can identify probable fraud in reports by evaluating the elements that lead to false financial reporting using the Fraud Heptagon

technique. Fraud Heptagon is a model for identifying the possibility of fraud in financial informations which includes the first factor, namely Incentives that make people commit fraud for a certain target, the second factor namely Pressure which makes people feel pressured or squeezed, such as economic factors that are in difficulty due to a pandemic, the third factor namely Opportunity to commit fraud which finds a loophole to embezzle profits, the fourth factor namely Rationalization there is self-justification for committing fraud, the fifth factor namely Competence where the person has competence in that field, the sixth factor namely Ignorance towards both sanctions and also punishment even though it is wrong cheating, and the seventh factor is Greed who is greedy for wealth and always wants more than what they already have (Agung et al., 2021; Prihanto, 2021).

Fraud Heptagon approach with these factors is considered capable of assisting auditors and forensic accountants in detecting potential or symptoms of fraudulent financial statements. This research using the heptagon fraud approach uses the object of before and after the COVID-19 pandemic, financial accounts of companies in the real estate and property sectors that were traded on the Indonesia Stock Exchange were available.

2. Literature Review and Hypothesis Development

2.1. Fraud Heptagon

The Association of Certified Fraud Examiners (ACFE) stated fraud is defined as a deliberate, unlawful act carried out with a specific objective, such as manipulating or supplying false reports to other users, and is typically committed by internal or external parties of the company for individual and/or group benefits (Fitri et al., 2019). The Fraud Triangle strategy, developed by Donald Cressey in the 1950s and consisting of three components—Motivation, Opportunity, and Rationalization—is the most well-known fraud detection technique (Schuchter & Levi, 2016). The Fraud Triangle was the first of several techniques that have since been added, including the Fraud Diamond, Fraud Pentagon, Fraud Hexagon, and Fraud Heptagon (Prihanto, 2021).

Detection of potential fraud using the The Fraud Heptagon technique entails the following components: Incentives, Pressure, Opportunities, Attitudes, Rationalization, Competence, Arrogance, Ignorance, and Greed (Prihanto, 2021).

2.2. Financial Statements

Financial statements provide relevant financial data to internal and external users through financial reporting other than formal financial statements. Financial statements are the primary tool used by businesses to communicate their financial information to those outside the business that provides a qualified history of the company in money terms (Kieso et al., 2020).

An income statement that includes revenues, expenses, and income as well as the net profit or loss for a given time period is one of the five financial statements that the company produces. In a retained earnings statement, the company's earnings over time are shown. A balance sheet, also known as a statement of financial status, compiles a company's assets, liabilities, and equity as of a specific date. A statement of cash flows places emphasis on information regarding cash inflows, or revenues and payments, for a certain period, while a statement of comprehensive income stresses other components of comprehensive income that are not considered when computing net income. (Weygandt et al., 2015). The statement of financial position, income statement, cash flow statement, and statement of changes in equity are the financial statements that are most frequently presented.

2.3. Theoretical Framework

The theoretical basis for this study is shown in Figure 1

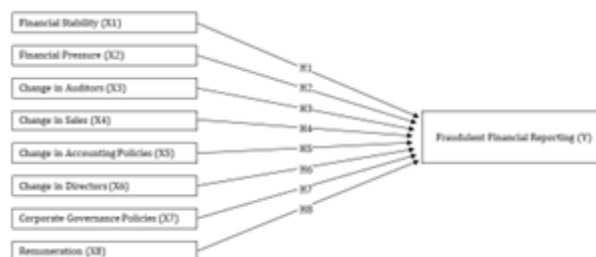


Fig. 1: Research Model.

2.4. Hypothesis Development

2.4.1 *The Impact of Pressure Proxied by Financial Stability on Fraudulent Financial Reporting*

According to the rate at which a company's assets are increasing, a company's financial health or level of success is referred to as being in financial stability. Management will use a variety of strategies to make the company's financial health appear strong while it is threatened (Aren & Sibindi, 2014). Because the financial sector handles the majority of transactions in the actual economy, financial stability is crucial for economic growth (Battiston et al., 2021).

A set of guidelines based on Statement of Auditing Standards No. 99 is designed to help external auditors spot fraud and can also help deter management or staff from doing so (Lu, 2005). To make the company's performance appear good to users of financial statements, management frequently falsifies asset growth when a company's assets decline due to market conditions and other factors. According to the preceding description, the following hypotheses were employed in this study:

H1: Pressure from financial stability has a substantial impact on the probability of misleading financial reporting

2.4.2 *The Impact of Pressure Proxied by Financial Pressure during the COVID-19 Pandemic on Fraudulent Financial Reporting*

The COVID-19 pandemic has had an impact on all business sectors around the world, where the economy is experiencing a downturn. Based on data from the Central Statistics Agency (BPS), Indonesia experienced a shrinking economic growth in 2020 of -2.07% where this deflation was caused by unstable economic movements. Based on the data listed in PMK No. 124/PMK.010/2017, Indonesia is experiencing deflation with an inflation rate of 1.68% which is the lowest figure and far from the Government's target (Ferlito & Rambey, 2020).

During the COVID-19 pandemic in 2020, there was a fall in business for property and real estate firms. prices due to reduced public demand for properties such as houses, land, and other buildings caused by the economic downturn in Indonesia. The slow growth in property sales was caused by several factors, including rising prices for building materials, licensing/bureaucratic issues, the high proportion of down payments in mortgage applications, and taxation (Devi et al., 2020).

Fraudulent financial reporting is the intentional overstatement and/or understatement of balances in the financial statements that will result in the highest median loss for the company (Shonhadji, 2023). Financial pressure from internal or external organizations to achieve performance targets and related indirect benefits such as to avoid missing bonus payments or rising share prices (Dodd, 2020). Following is the study's hypothesis, according to the context of the provided description:

H2: Financial pressure as a proxy for pressure has a substantial impact on the probability of dishonest financial reporting

2.4.3 *The Impact of Fraudulent Financial Reporting and the Opportunity Proxied by a Change in Auditors*

In each audit, the auditor is obligated to evaluate explicitly the risk of a major financial statement misrepresentation brought on by fraud (Patterson et al., 2019). The frequent replacement of auditors in a corporation permits deception in financial statements, with reference to Statement of Auditing Standards No. 99. This procedure is intended to remove or erase any evidence of the previous auditor and may enable fraud in the organization to be covered up. A change in auditors is not important in spotting fake financial accounts, claims study (Khaksar et al., 2022). The study's hypothesis is the following, which is based on the description above:

H3: The possibility of fraudulent financial reporting is not significantly affected by the opportunity proxied by the change of auditor

2.4.4 The Impact of Incentives Caused by a Change in Sales on Fraudulent Financial Reporting

In the real estate industry, incentives are the primary determinant of sales income. The incentive itself is a predetermined proportion of the sales proceeds. Businesses with poor earnings may drive managers to inflate sales or expenses, which can lead to serious inaccuracies in the financial statements and reduce incentives (Arifin & Prasetyo, 2018). The temptation to obtain financial report fraud will be stronger the more income is made, which will result in higher sales. The study's hypothesis is the following, which is based on the description above:

H4: The Incentives proxied by changes in sales have a substantial impact on the probability of misleading financial reporting

2.4.5 The Impact on Fraudulent Financial Reporting of Rationalization Proxied by Change in Accounting Policies

According to the Statement of Financial Accounting Standards 25 (PSAK 25), accounting policies are specific principles, criteria, conventions, rules, and procedures which companies use in the development and presentation of financial statements. When an accounting policy is altered retrospectively, the entity modifications the opening balance of each impacted equity element for the first period presented and discloses other comparative amounts for each period as if the new accounting policy had been in place at the time the period was presented. Because doing so will have a significant impact on the company, businesses should change their accounting practices to comply with PSAK in terms of acknowledgment, evaluation, arrangement, and reporting. The study's hypothesis is the following, which is based on the description above:

H5: The potential of misleading financial reporting is strongly impacted by rationalization as indicated by an accounting change.

2.4.6 The Impact of Capability Proxied by Directors Changing on Fraudulent Financial Reporting

Directors are those who have power or influence over business operations and have the ability to enact policies. Changes to a company's board of directors may result in financial statement fraud. The amount of board member changes during a specific time period aims to cover up or erase evidence of fraudulent activity. The longer it takes to adjust owing to changes in corporate rules, the more frequently the company's activities change and become ineffective. According to studies (Fitri et al., 2019; Rodriguez-Fernandez, 2016), a change in directors can affect the ability to spot false financial statements. The study's hypothesis is the following, which is based on the description above:

H6: The capacity implied by a change in directors has a substantial impact on the potential for misleading financial reporting

2.4.7 The Impact of Corporate Governance Policies-Proxied Ignorance on Fraudulent Financial Reporting

Good corporate governance is a structural procedure utilized by BUMN organs to increase economic success and corporate accountability, as per the Decree of the Minister of State-Owned Enterprises Number KEP-117/M-MBU/2002. A company's management system called "good corporate governance" is one that was developed to boost business performance and strengthen adherence to ethical standards and legal requirements (Rodriguez-Fernandez, 2016). According to (Kesuma et al., 2020), corporate governance refers to a company's efforts to establish a pattern of favorable connections between its stakeholders by boosting the company's value through boosting the financial security of its owners. Because this characteristic might be one of the causes of people committing fraud because they are unaware of the circumstances in their firm, it is important to reduce ignorance of the existence of excellent corporate governance. The study's hypothesis is the following, which is based on the description above:

H7: Corporate governance practices as a proxy for ignorance have a substantial impact on the probability of misleading financial reporting

2.4.8 The Impact of Greed Proxied by Remuneration on Fraudulent Financial Reporting

Each firm has a distinct remuneration to fit performance (Pangestu et al., 2019). Remuneration is an incentive or kind of encouragement that can be given to directors so that they can carry out their duties in accordance with the interests of shareholders. Giving the directors compensation, however, opens the door for deception because of their avarice. The character trait of someone who is never content and always wants more is greed. According to (Nawawi, 2017), paying directors compensation has a connection to fraud. According to research (Suria & Rashidah, 2013), corporations limit executive compensation to enhance business performance as well as to rein in executive directors' behavior to deter fraud. The study's hypothesis is the following, which is based on the description above:

H8: The probability of dishonest financial reporting is substantially impacted by greed, which is represented through remuneration

3. Research Methodology

3.1. Research Method

The logistic regression approach was used in this study's quantitative research to assess statistical outcomes, and To ascertain how the independent variables impacted the dependent variable, the Beneish M-Score Model was constructed. Before and during the COVID-19 pandemic, financial stability and pressure, changes in auditors that present opportunities, shifts in sales that have an impact on incentive growth, frequent changes in accounting policies, shifts in directors, corporate governance policies, and director and leader compensation are just a few examples of independent variables. Fraudulent financial reporting, namely financial statements using data from 2018–2019 (before the COVID–19 pandemic) and data from 2020–2021 (during the COVID–19 pandemic), is a dependent variable. Secondary data for the study was gathered from the financial and annual reports of a sample of real estate and property companies listed on the Indonesia Stock Exchange (www.idx.co.id) from 2018 through 2021. The data for this study is only up to the year 2021 because annual reports and financial reports were made public for this study both before and during the COVID-19 pandemic.

3.2. Operation of Variable

3.2.1. Dependent Variable

The Beneish M-Score (Omar et al., 2014) will be used to statistically evaluate the dependent variable (Y) in this study, Fraudulent Financial Reporting, in order to detect any potential for fraudulent financial reporting in the organization's financial statement. The indicator includes the eight M-score ratios listed below:

Table 1. Dependent Variable

Dependent Variable (Y) = Fraudulent Financial Reporting		
Index		Ratio Formula
Day Sales in Receivable Index	DSRI	$\frac{\text{Account Receivables } t}{\text{Sales } t} \div \frac{\text{Account Receivables } t-1}{\text{Sales } t-1}$
Gross Margin Index	GMI	$\frac{(\text{Sales } t-1 - \text{Cost of Goods Sold } t-1)}{\text{Sales } t-1} \div \frac{(\text{Sales } t - \text{Cost of Goods Sold } t)}{\text{Sales } t}$

Asset Quality Index	AQI	$\frac{1 - \frac{(\text{Current Assets } t + \text{Net Fixed Assets } t)}{\text{Total Assets } t}}{1 - \frac{(\text{Current Assets } t-1 + \text{Net Fixed Assets } t-1)}{\text{Total Assets } t-1}}$
Sales Growth Index	SGI	$\frac{\text{Sales } t}{\text{Sales } t-1}$
Depreciation Index	DEPI	$\frac{\frac{\text{Depreciation } t-1}{\text{Depreciation } t-1 + \text{Net Fixed Assets } t-1}}{\frac{\text{Depreciation } t}{\text{Depreciation } t + \text{Net Fixed Assets } t}}$
Sales, General and Administrative Expenses Index	SGAI	$\frac{\frac{\text{Sales General and Administrative Expenses } t}{\text{Sales } t}}{\frac{\text{Sales General and Administrative Expenses } t-1}{\text{Sales } t-1}}$
Leverage Index	LVGI	$\frac{\frac{(\text{Long Term Debt } t + \text{Current Liabilities } t)}{\text{Total Assets } t}}{\frac{(\text{Long Term Debt } t-1 + \text{Current Liabilities } t-1)}{\text{Total Assets } t-1}}$
Total Accruals to Total Assets	TATA	$\frac{\text{Income Before Extraordinary Items - Cash from Operations}}{\text{Total Assets } t}$

Based on the aforementioned proportions, a formulation the Beneish M-Score that will be utilized is as follows:

Table 2. Beneish M-Score

<i>Beneish M-Score</i>
$-4.84 + 0.92 DSRI + 0.528 GMI + 0.404 AQI + 0.892 SGI + 0.115 DEPI + (-0.172 SGAI) + (-0.327 LVGI) + 4.679 TATA$

In detecting fraudulent financial reporting using the M-Score calculation the indication used is -2.22 (Omar et al., 2014). If the results of the calculation of the company's financial statements show $M > -2.22$, then the company is indicated to be committing fraud which will be denoted by 1. And vice versa if $M < -2.22$ then most likely the company is not committing fraudulent financial reporting which will be denoted by 0.

3.2.2. Independent Variable

Among the independent factors in this study that are measured using the Fraud Heptagon model approach are financial stability, financial pressure, changes in auditors, changes in sales, frequent changes in accounting policies, changes in directors, corporate governance policies, and remuneration. In assisting with variable identification, the following table provides operational definitions of the independent variables utilized in this study:

Table 3. Independent variables

Independent Variable (X)		
Fraud Heptagon Approach		Ratio Formula
Financial Stability	Pressure	Asset Change Ratio $\frac{\text{Total Asset } t - \text{Total Asset } t-1}{\text{Total Asset } t-1}$
Financial Pressure	Pressure	Leverage Ratio $\frac{\text{Total Liabilities}}{\text{Total Asset}}$
Change in Auditors	Opportunity	Measured by a dummy variable, in the event that the auditor changes within the period 2018-2021, it is coded 1, but in the event that not, at that point 0.
Change in Sales	Incentive	If there is a change in sales between 2018 and 2021, as measured by a dummy variable, it is coded 1, but if not, it is coded 0.
Change in Accounting Policies	Rationalization	Measured employing a dummy variable, in the event that there's a alter in accounting policies amid the 2018 – 2021 period at that point it is coded 1, but in case not, it is coded 0.
Change in Directors	Capability	Measured employing a dummy variable, in the event that there's a change in directors amid the 2018 – 2021 period at that point it is coded 1, but in the event that not, it is coded 0.
Corporate Governance Policies	Ignorance	If training is provided for employees or directors between 2018 and 2021, it is marked as 1, but if not, it is coded as 0.
Remuneration	Greed	Measured employing a dummy variable, in case there's a remuneration that is greater than the average total remuneration for the 2018 – 2021 period at that point it is coded 1, but on the off chance that not, it is coded 0.

Results and Discussion

3.3. Autocorrelation Test and Normality Test

Table 4. Autocorrelation Test

Runs Test	
	Unstandardized Residual
Test Value ^a	683048045.17195
Cases < Test Value	38
Cases >= Test Value	38
Total Cases	76
Number of Runs	40
Z	.231
Asymp. Sig. (2-tailed)	.817
<i>a. Median</i>	

(Source: Thesis data processed with SPSS 26)

Based on the outcomes of the preceding run test, which involved 20 samples of real estate and property companies and 76 points of data, this study passed the autocorrelation test since the Asymp. Sig. was 0.817, which is more than 0.050 ($0.817 > 0.050$). The points (Dependent Variable: Fraudulent Financial Reporting) are almost close to straight lines because of Asymp. Sig. (2-tailed) greater than 0.050, according to a Normal P-P Plot of Regression Standardized Residual like the one shown above.

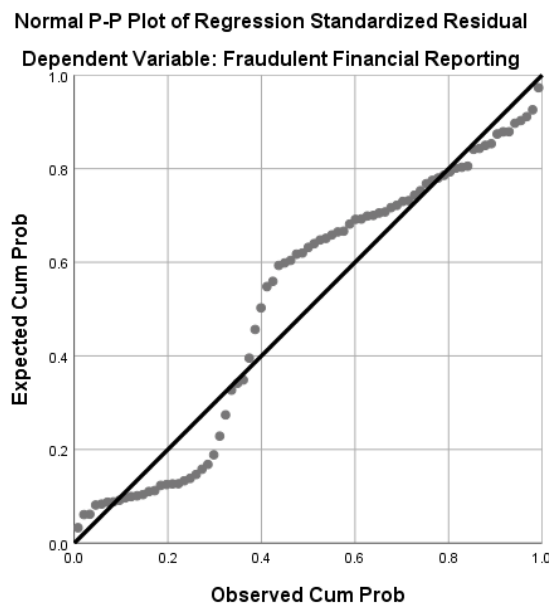


Fig. 2: Normality Chart.

3.4. Multicollinearity Test

The results of the multicollinearity test with the Beneish M-Score data as the dependent variable show that there is no multicollinearity between each independent variable (Almomani et al., 2023), so it cannot explain the regression model in this study where the tolerance collinearity statistical value of each variable is greater than 0.10 10. (tolerance > 0.10) and the statistical value of VIF collinearity for each variable is less than 10 (VIF < 10).

Table 5. Multicollinearity Test

Variables	Collinearity Tolerance	Variance Inflation Factor
Financial Stability	.849	1.178
Financial Pressure	.902	1.108
Change in Auditors	.849	1.178

Change in Sales	.912	1.097
Change in Accounting Policies	.957	1.045
Change in Directors	.873	1.145
Corporate Governance Policies	.933	1.071
Remuneration	.911	1.098

(Source: Thesis data processed with SPSS 26)

3.5. Heteroskedasticity Test

On the basis of the scatterplot test's findings, it is apparent that the dots are randomly distributed above and below the Y axis value of 0, with no discernible pattern among them. It can be said that the regression model satisfies the criteria for a decent regression model and does not exhibit heteroscedasticity. Figure 3 depicts the heteroscedasticity test.

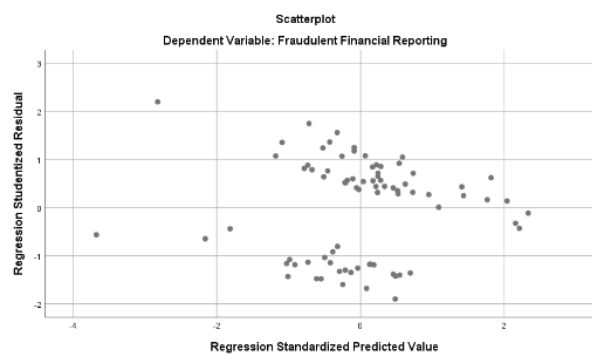


Fig. 3: Scatterplot.

3.6. Determination of Coefficient

Table 6. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.449 ^a	.201	.110	2124670146.96175

(Source: Thesis data processed with SPSS 26)

The results of the summary model described above show that an adjusted R Square value of 0.110 indicates that the independent variable can only explain 11% of the contribution of the dependent variable, with the remaining

89% being explained by other variables outside the range of the sample used in the model for this study.

3.7. Hypothesis Testing (T-Test)

Table 7. Hypothesis Testing (T-Test)

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-876025535.252	807459210.087		-1.085	.282
	Financial Stability	3.188	2.520	.147	1.265	.210
	Financial Pressure	.140	1.009	.016	.139	.890
	Change in Auditors	1562788105.405	587372794.266	.308	2.661	.010
	Change in Sales	1.210	.422	.321	2.867	.005
	Change in Accounting Policies	-47802421.990	491995366.743	-.011	-.097	.923
	Change in Directors	-1164955443.913	689934937.693	-.193	-1.689	.096
	Corporate Governance Policies	-531024281.013	615679304.183	-.095	-.863	.391
	Remuneration	-126892102.389	504266378.172	-.028	-.252	.802

(Source: Thesis data processed with SPSS 26)

Testing the hypothesis using the non-probability or purposive sampling method in this study, the authors obtained 20 samples of property and real estate companies listed on the Indonesia Stock Exchange for the term of 2018-2021 where using data from 2018-2019 (before the COVID-19 pandemic) and data from 2020-2021 (during the COVID-19 pandemic) with a total of 76 data samples. Thus, the hypothesis testing conducted by the authors come to the conclusion that the dependent variable was significantly impacted by two independent variables, namely Change in Auditors and Change in Sales which affect Fraudulent Financial Reporting which was proven by each of the Sig. is greater than 0.050.

4. Conclusion and Suggestions

According to the findings of the tests conducted by the authors of this study, fraudulent financial reporting using the heptagon fraud approach against property and real estate companies listed on the Indonesia Stock Exchange before and during the Covid-19 pandemic produced notable results. Heptagon fraud model has a substantial impact on the opportunities (Changes in Auditors) and incentives (Changes in Sales) by applying the calculation of the Beneish M-Score Model in identifying movements in financial statements.

Therefore, the authors provide several suggestions that can be considered for future fraud detection research to obtain better-quality results. The author suggests expanding the sample data used, where the use of financial report data for property and real estate companies is better to use data from startup companies or companies that are experiencing financial difficulties compared to well-known companies or companies that are developing because it will further assist research in detecting financial statement fraud.

Then the authors also suggest that auditors should pay more attention to companies that often change auditors and companies that often experience sales turnover, additionally auditors must apply an attitude of professional skepticism following Auditing Standards (SA 200) (Sebastian, 2023).

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