

(Research/Review) Article

# Fraud Triangle Analysis of Financial Reporting Fraud in Manufacturing Companies on the Indonesian Stock Exchange

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**Abstract:** Study This explain How elements in Fraud Triangle covering pressure ( pressure ) , opportunity , and rationalization influence occurrence fraud in compilation report finance in the company manufacturing listed on the Indonesia Stock Exchange ( IDX ). With use method qualitative , data obtained with analysis document like report financial , audit results . Research results reveal that combination between pressure achievement performance , weakness system internal control , as well as the rationalization process by management become factor main driver cheating . Meanwhile that , governance good company and independent auditors who have integrity strong capable pressing risk the occurrence of fraud. Research This confirm importance strengthen internal control , building culture ethics , and improve greater audit role active .

**Keywords:** Fraud Triangle , fraud report finance , manufacturing;

## 1. Introduction

Report finance covers all information about finance companies , including balance sheet , profit loss , report cash flow , report change equity , and notes on report finance , whose function is give information about finance company in a way overall . The auditor is the person responsible answer For check and publish report finance company . The auditor's objective should be independent and not biased . Examination This carried out in the company open or public . Large companies and small still require audit report finance For publish report his finances.

One of type the most dangerous fraud is fraud report finances , which threaten investor trust and confidentiality information finance . Fraud Triangle, which consists of from pressure , opportunity , and rationalization , many used For explain how and why fraud happened. At the company manufacturing on the Indonesia Stock Exchange ( BEI), the risk of fraud increases Because height complexity operational , structure huge costs , as well as demands performance from holder stock . Report Finance own a very important role in activities and events business , functioning as provider information finance for users and takers decision economy . In order to be able to useful , report finance must can understandable , relevant, reliable where free from misleading understanding , error materials and reports finance the must served with Honest so that describe with Honest transaction as well as incident others, which is actually occurs in activities business . (Standar Akuntansi Keuangan, 2015).

In the report finance , a company want to produce profit or the biggest profit . Report finance aim For show performance finance , position financial and cash flow of the entity . They can also show not quite enough answer management on use source power supplied to

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them . In addition , the report finance is very useful for those who make decision economy (IAI, 2015).

(Rachmawati & Marsono, 2014) state every company always want to display condition good company moment publish report his finances , with the aim is for users report finance can evaluate performance good management . Management try as much as possible Possible For show condition company in a way accurate , regardless from possible fraud happen . Manipulation report finance , also known as as fraud report financial , is an intentional misstatement like remove part or disclosure certain from report finance For cheat its users.

The purpose of study This is For learn in a way deep How every element from Fraud Trilogy works in company manufacturing listed on the Indonesia Stock Exchange ( IDX ), as well as How management , internal and external auditors influence possibility occurrence cheating .

In some time lastly , it happened scandal accountancy massive scale caused by speculation that management company do error and not honest , which results in fraud in report finance . (Skousen, Detecting and Predicting Financial Statement, 2008). A research conducted by the Association of Certified Fraud Examiners (AFCE) found that the board of directors or owner company responsible answer over 83% of cases fraud . Many auditors see improvement fraud report finance this , which in the end cause bankrupt company . In addition , the practice fraud report finance This cause doubt about credibility report Company (Long, 2010)finance.

Fraud triangle is theory put forward by (Cressey, Detecting and Predicting Financial Statement Fraud. The Effectiveness of the fraud triangle and SAS no 99, 1953)Cressey interviewed 200 employees imprisoned companies Because fraud For investigate reason fraud. His research find that pressure , opportunity , and rationalization is three things that encourage somebody For do fraud . Triangle theory cheating , also known as as theory fraud triangle, then developed For explain third condition This.

Indonesia is also famous with fraud report finance. In 2001, there was scandal finance in the company public, PT Lippo Tbk and PT Kimia Farma Tbk. PT Kimia Farma is a state-owned enterprise whose shares are traded on the stock exchange and become company public According to Ministry of State-Owned Enterprises indications and inspections Bapepam, there is a misstatement in report finances that cause more overstatement of profit clean amounting to Rp 32.7 billion in the year ended December 31, 2001, which is 2.3 percent from sales and 24.7 percent from profit clean. Misstatement This happen Because three company raise price permitted inventory.

There is three conditions that always present in fraudulent actions, namely pressure, opportunity, and rationalization, which are called as a fraud triangle. Pressure, Opportunity, and Rationalization can occur due to several things, such as the company's financial stability being threatened by poor economic conditions and competition between companies, management being under pressure to meet third party expectations regarding company performance, or management's personal finances not being balanced with the results obtained from company activities, company transactions being very complex so that they open up opportunities for fraud, these conditions tend to make management commit financial reporting fraud. Third condition the is factor risk emergence fraud in various situation (Long, 2010).

Definition fraud according to (ACFE, 2016), fraud is something action fraud or deliberate error For get profit personal or groups that are direct or No direct can harm party other.ACFE describe chart scheme fraud in the so -called world of work with fraud tree or tree cheating.

Based on background back on top, cheating report very much risky for Lots parties. This is caused by three the above conditions that encourage one of party For do cheating. The following is formulation problem research. How pressure (pressure ) has an effect to

fraud report finance ? How opportunity ( opportunity ) triggers occurrence fraud report finance? How rationalization supports action fraud?

## 2. Theoretical Review

### Agency Theory

One of type the so -called assumption as agent theory describe the conflict that occurred as results from conflict or difference interest between agent and principal in something operating companies (Jensen & H. W, 1976). A perpetrator responsible business answer in a way full on operation a company consisting of from various structural and given each task according to field his duties . Manager , as leader , responsible answer For optimize operation company to remain walk with good and productive satisfactory result for the owners (principals), which means is holder share or investors, and agents is responsible party answer on operation company (Lidiawati & N. M, 2016). However , managers also have interest personal For prosper employee they . With Thus , the perpetrators business in a way No direct demanded For get high income and profits . Because the value company will increase with high profits , investors will more interested For investment Again Because dividends distributed will also be increased. According to company , company try For maintain dividend (Lintner, 1956).

### Report Finance

Report finance is data collection about finance companies created by managers and given to investors and owners company . Report finance Alone consists of from balance sheet, profit loss , cash flow , and reports changes in capital. Each is related One each other and convey information finance . According to (Fahmi, 2011) report financial statements presented aim For give information to interested party . According to definition , report finance is something a report that describes condition finance something company at the time This or the future (Kasmir, 2014).

### Fraud Triangle

Donald R. Cressey created Fraud Triangle theory after do study For thesis his doctorate in 1950. For explain why people do fraud , he make hypothesis about three aspect fraud . Many abusers disclose in interview that they know that they is habit For do illegal and wrong every when , and they only playing around self they Alone For consider it not illegal (Cressey, 1950) . The perpetrators motivated For do deception by pressure , opportunity , and rationalization.

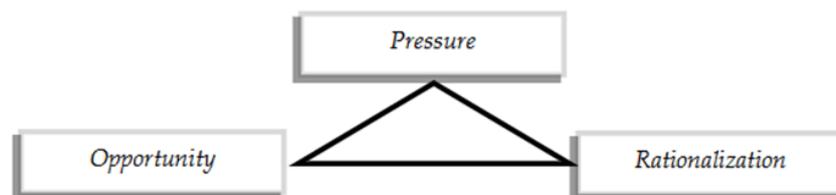


Figure 1. Fraud Triangle

Well Source (2005)

### Pressure

Three types pressure can appear , according to (Cressey, 1950) pressure For pay style life , pressure employee to structure organization company , and desire management finances originating from from source external For guard finance . According to (Murdock, 2008), pressure can originate from various sources , including pressure financial , non- financial pressure , pressure politics and pressure social . Non- financial stress can in the form of violation

discipline or habit bad others , such as gambling . drugs addicted On the contrary , the pressure political and social appear when somebody No Want to lose his status and reputation.

### **Opportunity**

Opportunity is when somebody own chance For do fraud in the company . Opportunity factors this is very important and can happen When only , so that need supervision from structure organization (Rachmania, 2017).

### **Rationalization**

Triangular section the most difficult cheat measured is rationalization . People who have used to become No Honest Possible more easy rationalize fraud . The perpetrator finance always look for reason For his actions (Priantara, 2013). According to SAS No. 99, rationalization consists of from two circumstances : auditor change (auditor switch ) and audit opinion Auditor change occurs when contract approved work between accountant public and providers task finished and giver task decide For No extend contract with assignment new . The company changed auditors for reduce possibility detected fraud in report finance . Increasingly often company changing auditors, the more big possibility company do fraud.Audit Opinion : A report made by an auditor accountant public registered as results evaluation suitability report finance company (Ardiyos, 2009).

### **Financial Statement Fraud**

According to Statement of Auditing Standards No. 99, financial statement fraud is action management with on purpose manipulate report finance For misleading users report finance (Nugraheni & Triatmoko, 2017). According to SAS No. 99, fraud report finance can approved if : (1) Manipulation , falsification , or change notes accountancy or document supporters report finance , (2) Mistakes or willful negligence in information important in report finance , and (3) Misuse in a way on purpose related principles with quantity , classification , presentation , or disclosure.

### **Development Hypothesis**

#### **Influence Pressure ( *Pressure* ) against Fraud Report Finance**

When management face demands large financial , such as profit targets that are not can achieved , pressure from investors, and obligations For fulfil debt contract , called pressure . According to Fraud Triangle theory put forward by (Cressey, 1953) , when somebody No can reach objective reasonable financial pressure become factor the main driving force they For do fraud . Manufacturing companies listed on the Indonesia Stock Exchange often face pressure Because decline profitability , high leverage, and instability performance finance . As a result , management must change report finance they For still seen both in the eyes of investors and creditors . So based on description on can concluded hypothesis as following : H 1 : Pressure has an effect positive to fraud report finance.

#### **Influence Opportunity for Fraud Report Finance**

Chance is a state in which people can do fraud Because system weak internal controls and lack of supervision . According to SAS No. 99 (2002) opportunity is the most increasing factor possibility cheating , because fraud No will happen without opportunities . Manufacturing companies often experience chance Because complexity operational , many transaction inventory , separation poor performance , and an audit committee that is not effective . Condition This allows management cheat report finance without easy known . Quality internal control and audit have an impact big to fraud report finance in the company manufacturing . This shows that more Lots opportunity , more Lots fraud . So based on description on can concluded hypothesis as following : H 2 Opportunity has an influence positive to fraud report finance.

## **Influence Rationalization of Fraud Report Finance**

The process carried out by the perpetrator fraud For consider do fraud as something that can accepted morally recognized as rationalization . According to Cressey (1953), people who do fraud will look for justification for them still feel as an honest person.

Management often rationalize fraud report finance as matter temporary For maintain company or Because That considered normal in business . Rationalization push somebody For do fraud in situation pressure and opportunity , according to (Wolfe & Hermanson, 2004).

Empirical studies in Indonesia found that proxied rationalization through auditor changes and audit opinions affect fraud report finance . This shows that rationalization is component important in action fraud company manufacturing (Tessa & Harto, 2016). So based on description on can concluded hypothesis as following : H 3 Rationalization has an effect positive to fraud report finance.

## **3. Research Methods**

### **Types of research**

Methods used is method Systematic mapping study is systematic literature review method that uses steps that have been taken set previously . In addition , researchers No choose paper in a way personal on the contrary , they use protocols and filters that have been set previously For choose paper. Systematic mapping study usually used For topic further research wide than review conventional .

Secondary data will used in study this . Secondary data obtained from study literature about fraud committed from 2015 to 2025 from all journal national and international research This done For answer a number of question research , one of which is method detection the cheating used For detect cheating and what words are most often used used For detect cheating , such as detection fraud , detection cheating , and fraud reporting finance .

### **Data collection technique**

Data collection techniques used For obtaining data is as following : Documentation According to Sugiyono is notes about events that have occurred happened . Document can in the form of writing, pictures , or work big from someone . Research This will inspect report finance government center . Literature study that is important For Secondary data research . Books , journals , literature , the internet, and other related tools with analysis report finance government center used by researchers For get relevant data with subject study .

## **4. Research Result**

Secondary data collected from the Google Scholar website used For do study this . Researcher do browsing to all research in Indonesia. Researchers using keywords detection fraud, detection fraud , and detection fraud For do data search . Research done every year start 2015 to 2025. Results of the Fraud Triangle study on companies manufacturing on the Indonesia Stock Exchange shows that pressure finance is also known as pressure finance is the most frequent factors cause fraud report finance . Approximately 85% of the articles analyzed state that pressure is reason main action manipulative management in the reporting process finance.

Pressure the usually originate from hopes and demands high performance from inside and outside company . Meeting profit targets is one of the form the most dominant pressure In a state of like this , some company choose For change report finance they For seen fulfil market expectations and maintain price share stable.

Besides the pressure performance, demands from holder shares also become factor important. Holder stocks in general want level stable profitability and dividends so that they often give pressure to management For show performance positive in a way consistent. When performance decline, management can feel worry lost investor confidence so that pushed For do actions that are not ethical like manipulate incom, delay recording costs, or do engineering accountancy other.

Pressure finance proven to be the most dominant in the company manufacturing Because characteristics industry this is what has cycle production length, dependency big to material standard and sensitivity tall to change cost production. Fluctuations cost material standard, change mark exchange, until increase wages power Work can direct influence profitability company. Complexity chain production and structure cost like This make company manufacturing prone to experience pressure more finances strong compared to sector other.

Pressure in a way consistent increase trend occurrence manipulation report finance. High financial pressure, combined with inability company achieve operational targets, create vulnerable environment against fraud. With Thus, the factors pressure become element important in understand How fraud report finance can happened in the company manufacturers listed on the IDX.

Found that the most dominant factor that allows fraud report finance is opportunity. All reviewed articles, or one hundred percent from research, in general firm state that weakness internal control becomes factor the biggest cause possibility management or individual in company commit fraud.

Weak separation task is one of the the most common weaknesses. Some task important like authorization, recording, and storage asset often done by individuals or the same work unit in Lots company manufacturing. Conditions This open gap big for occurrence financial data manipulation without existence mechanism supervision adequate cross. Without separation clear duties, fraud can occur done with risk low For detected.

Lack of effective supervision is results additional items that appear in a way consistent in every articles. Many businesses No own system continuous monitoring where management top and internal audit units conduct audits. Recording transactions, assessments assets, or presentation report finance can be wrong if No There is supervision. The ineffectiveness of this monitoring allows perpetrator do manipulation repeat and create every indications of fraud are difficult identified since early.

Based on the result, can concluded that opportunity is the strongest factor in the Fraud Triangle in companies manufacturing on the IDX. Weaknesses in poor internal control and audit quality become reason main opportunity for perpetrator For do fraud report finance. In other words, when system supervision No Work with well, cheating more easy happen.

Besides pressure and opportunity, rationalization is component final in the Fraud Triangle which is very important. According to results review journals, about 70% of articles show that fraud perpetrators tend to use various type justification psychological For justify action they, who made it looks logical or can accepted in a number of situation.

The theory that fraud done for the sake of continuity business is one of the the most common reason. The perpetrator have an opinion that For make business seen stable in the eyes of investors and creditors, reports finance must manipulated. The perpetrator feel justification This is action rescue business than violation ethics or law.

Maintain reputation management with do action manipulative is form rationalization additional. In the industry competitive manufacturing, investor assessment of companies are heavily influenced by reputation management. When the report finance show decline performance, management feel need do adjustment temporary For maintain reputation professionals and companies in a way overall.

The journal review also show that culture poor organization and ethics Work reduce rationalization . Leaders who do not immoral and unethical companies apply principle integrity make employee more easy consider action manipulative as matter normal or even part of the company's strategy . Although intensity different For each company , rationalization is indeed play a role big in strengthen fraudulent actions . This works as means emotional connection pressure and opportunity with decision end For do fraud report finance.

## 5. Conclusions

Based on results analysis articles , can concluded that third element Fraud Triangle pressure , opportunity , and rationalization together influential significant to occurrence fraud report finance in the company manufacturing on the Indonesia Stock Exchange . Management motivated For change report finance Because demands holder stock , decline sales , and pressure finances . However , the pressure the only will push fraudulent actions when There is chance or opportunity in system Company's internal controls . The review results show that opportunity is the most important factor in the Fraud Triangle. Report finance manipulated Because poor internal control , separation poor assignment , poor monitoring , low audit quality , and an audit committee that is not always competent.

Studies show that company complex BEI manufacturing in a way operations , such as those that have chain long production , diversification high product , or structure large costs, have greater risk of fraud high . Complexity operational This increase pressure finance and giving management more Lots chance For change report finance . Companies with structure operational simple own greater risk of fraud low If combined with culture permissive organization or weak supervision.

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