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Preface

Dear Distinguished Delegates and Guests,

The Conference Committee warmly welcomes our distinguished delegates and guests to the 2015 International Conference on Management, Finance and Entrepreneurship (ICMFE-2015) held on April 11-12 in Medan, Indonesia.

ICMFE-2015 is organized by International Foundation for Research and Development (IFRD). The conference is aimed at discussing with all of you the wide range of problems encountered in present and future issues in economies and Societies. ICESS-2015 is organized in collaboration with Universitas Islam Sumatera Utara, Medan, Indonesia, Yildirim Beyazit University, Turkey, Shinawatra International University, Thailand, PERTRE ANDERI of IASI, Romania and National Academy of Management, Ukraine where researchers from around the world presented their work. The conference committee is itself quite diverse and truly international, with membership around the world.

Proceeding records the fully refereed papers presented at the conference. Main conference themes and tracks are Management, Finance and Entrepreneurship. Conference aims to bring together researchers, scientists, engineers and practitioners to exchange and share their experiences, new ideas and research results about all aspects of the main conference themes and tracks and discuss the practical challenges encountered and the solutions adopted. The main goal of the event is to provide a scientific forum for exchange of new ideas in a number of fields that interact in depth through discussions with their peers from around the world.

Conference has solicited and gathered technical research submission related to all aspects of major conference themes and tracks. All the submitted papers have been peer reviewed by the reviewers drawn from the scientific committee, external reviewers and editorial board depending on the subject matter of the paper. Reviewing and initial selection were undertaken electronically. After the rigorous peer-review process, the submitted papers were selected based on originality, significance, and clarity for the purpose of the conference. Conference program is extremely rich, featuring high-impact presentations. The high quality of the program guaranteed by the presence of an unparalleled number of internationally recognized top experts. Conference will therefore be a unique event, where attendees will be able to appreciate the latest results in their field of expertise, and to acquire additional knowledge in other fields. The program has been strutted to favor interactions among attendees coming from many diverse horizons, scientifically, geographically, from academia and from industry.

We would like to thank the program chairs, organization staff, and members of the program committee for their work. We are grateful to all those who have contributed to the success of ICMFE-2015 especially our partners. We hope that all participants and other interested readers benefit scientifically from the proceedings and find it stimulating in the process. Finally, we would like to wish you success in your technical presentations and social networking.

We hope you have a unique, rewarding and enjoyable time at ICMFE-2015 in Medan.

With our warmest regards,

Conference Committee
April 11–12, 2015
Medan, Indonesia.

ICMFE-2015

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International Conference on Managemnt, Finance & Entrepreneurship (ICMFE-2015)

Table of Contents

International Conference on Management, Finance & Entrepreneurship (ICMFE-2015)

PAPERS

Fraudulent Financial Statement (Factors Analysis)

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Abstract: The purpose of this study is to analyze the factors that influence the fraudulent financial statement on manufactures company in indonesia. The independent variables which used are audit quality as measured by audit size (Public Accounting Firm big four and non big four) and financial distress as measure by Z score Zmizewzky model, while the dependent variabel which used is fraudulent financial statement as measured by F score model. As population in this study is manufacturing companies which were listing on the indonesia stock exchange between 2010-2012 period. Sampling was conducted with a purposive sampling method and there were 61 as sample of the manufactures companies, so that there were 183 observations. The method of analyzes which used is multiple linear regression. Based on the result of the study show that audit quality as measure a Public Accounting Firm big four have the negative effect on fraudulent financial statement, while financial distress have the positive effect on fraudulent financial statement.

Keywords: *fraudulent financial statement, audit quality, financial distress, F score*

1. Introduction

Nowadays, many illegal cases are published and it indicates the seriousness of *fraud* occurring in financial statement. One of the *fraudulences* that exist in Indonesia happens at PT Kimia Farma Tbk in which its financial statements is audited on December 31, 2001 by Hans Tuanakotta and Mustafa (HTM), and based on the indications made by the Ministry of BUMN and BAPEPAM (2002), it shows that the management of Kimia Farma is reported to have a net profit of Rp. 132 billion. Unfortunately, this net income is considered to be too high and indicated to possess elements of manipulation. Having held a re-audit on October, 03, 2002, the financial statement of Kimia Farma of 2001 is restated because it is found a very basic mistake in its financial report in which it only reports profit of Rp. 99.56 billion or lower than Rp32.6 billion or USD 24.7 billion from the beginning of the report. In addition, another case that shocked the world is conducted by Enron. The company suffers a loss and bankrupt of US $ 50 billion. Enron is suspected of practicing *window dressing* because management of Enron inflates *(mark-up)* its income of US $ 600 million and hide their debt by using *off-balance* amount of US $ 1.2 billion. The scandal has scratched the image of accounting profession. The cases presented are the result of *Fraudulent Financial Statement* practices.

According to Yustitia and Tarmidzi (2012) *Fraudulent Financial Statement* is a behavior of entity actors which is done intentionally, whether by action or omission, which results in financial statements bias. When a financial report contains elements of *fraud,* it can lead to the fall of the integrity of information in the financial statements (Ansar, 2011). According to Rezaee (2002), in the last period, the *fraudulent financial statement* has increased substantially due to the weak controls over financial reporting. Essentially, the financial report is a guide of *stakeholders* to make decisions related to the economic condition (Ghazali and Chariri, 2007). The financial statements must be presented fairly in accordance with generally accepted acounting principles (GAAP/PABU). According to FASB in Tjun Tjun., *Et al* (2012), there are two important characteristics that must be presented in the financial statements, they are *relevance* and *reliability.* The financial statements will lose its *relevance* and *reliability* when the financial statements presented have misstatement that would lead to a *fraud* (Aulia, 2013). In the *fraud triangle* theory developed by Cressey in Skousen (2009) and introduced in the Professional Literature on SAS 99 about *Consideration of Fraud in a Financial Statement Audit,* to detect *the fraudulent financial statements,* there are three conditions that must be paid attention on it, they are the pressure, opportunity and rationalization. Referring to the research conducted by Rahmawati (2013) which states that rationalization factor in *the fraud triangle* theory is so difficult to study, so that, the rationalization factor is not used in this research, it will only use the aspect of opportunities and *pressures.*

The first variable is taken from the opportunity factor of *fraud triangle* theory. This research uses the variables of audit quality that is reflected in the use of services by *the big four* and *non-big four* Public Accounting Firms (PAF/KAP). The audit quality is categorized as an opportunity factor of *fraud Triangle* theory. According to research conducted by Yustitia and Tarmidzi (2012) which is in line with the Gerayli (2009), it states that companies that use the services of the *big four* have low level of *fraud* if compared with those who use *non big four.* Therefore, auditors of the *big four* PAF are considered to be able to limit *fraud.* The second variable is the financial distress. According to plat and plat (2002), *financial distress* is a condition where the company is experiencing financial difficulties to fulfill its obligations. According to the study by Ansar (2011), in the *fraud triangle* theory, *financial distress* is categorized as pressure, because theoretically when entity actors are confronted with the current state of the company which is suffering any *financial distress*, such entities will attempt to commit *fraud* in the financial statements in order to make it more favorable than the original one. The theory is supported by research conducted by Hansan *et al* (2006), Carcello and Nagy (2004) which states that the higher the *financial distress* experienced by a company is, the higher the likelihood of *fraudulent financial statements* in an enterprise will be.

In this study, *financial distress* is measured by a *Z score* proxy of *Zmejewski* models which is referred to the research conducted by Ansar (2011). In addition, the audit quality is proxified by *big four* and *non-big four* PAF by using *dummy variables.* Moreover, the *fraudulent financial statements* can be measured by various methods such as *F score* which is used as a proxy to oversee the presence of *fraudulent financial statement.* Actually, the *F-Score* is developed by Dechow in 2007, yet, this *F-Score* method has not been widely developed in Indonesia. In addition, the use *of F-Score* is used to predict the existence of *fraud* early in the financial statements. This research refers to the research conducted by Yustitia and Tarmidzi (2012) which states that the quality of the financial statements audited by the *big four* PAF is more eligible than audited by the *non big four* ones. The difference of this research with the previous one is on the use of *financial distress* and the techniques of analysis used. Although cases of *fraud* in the accounting world often occur, in Indonesia itself, the cases of *fraud* never stop to be discussed (Wilopo, 2006). In addition, in Indonesia, there is still less investigation of *fraud* by using *the F-Score models,* so, it becomes opportunity for the researcher to provide an overview for stakeholders, especially investors in decision making process.

Theoretical Framework and Development of Hypotheses

The effect of quality audit toward the *fraudulent financial statement*: Good financial statements are the financial statements which do not contain misstatements material, as well as *relevant and reliable* if disclosed to the public. Theoretically, companies with good financial statements are considered to use the services of a qualified public accounting services, because the better the quality of the audit of the financial statements is, the lower the level of *fraud* will be. According to Yustitia and Tarmizi (2012), the level of risk of *fraudulent financial statement* in the company which uses the *non-big four* POF is greater than *the big four* ones, because the *big four* apply high standard criteria in auditing financial statements. In other words, if companies use the services of *the big four,* the trend of the company to commit *fraud* against the financial statements will decrease when compared to those who use the services of *non big four.* Moreover, this research is in line with the research conducted by De Angelo (1981) in Yustitia and Tarmizi (2012) which analyze the correlation of audit quality and the size of the audit. The result concludes that the large-scale auditors *(Big four)* are better than the small ones *(non-Big four)* because the Big four have more technical ability to find fraud in client accounting system as they have more extensive experience and high reputation if compared with *non-Big Four.* From the explanation above, the hypothesis is formulated as follows:
H1: Quality audit with a proxy of the *big four* PAF has negative effect on the occurrence of *fraudulent financial statement.*

The effect of *financial distress* on the *fraudulent financial statement*: According to Platt and Platt (2002), *financial distress* is a condition in which companies are not good in financial condition or are in crisis that results in companies struggle to meet its obligations. According to research conducted by Ansar (2011), based on the theory of *fraud triangle, financial distress* or financial difficulties can be categorized as pressure *(pressure)* faced by business entities related to businesses. Theoretically, if a company is experiencing *financial distress,* then the company will tend to make financial statements to look more favorable and stable, and the circumstances will motivate the management to commit *fraud* over financial report. According to research conducted by *Hasnan, et al* (2006) which is in line with research conducted by Carcello and Nagy (2004) in Subroto (2012), it states that *financial distress* positively influences *fraud,* because the higher the existing *financial distress* in a company is, the higher the likelihood of *fraud* in the financial statements will be. Based on the explanations above, the hypothesis is formulated as follows:

H2: ***financial distress* positively affects the occurrence of *fraudulent financial statement.***

2. Methodology

Population and Sample: The population in this study is the financial report of companies listed in Indonesia Stock Exchange in 2010 - 2012. The sampling method used in this research is *purposive sampling* method (IDX 2010-2012). In *purposive sampling,* sampling is done with the aim of existing and already planned beforehand. The criteria for the sample used in the research are:

1. Manufacturing company which is listed on the Indonesia Stock Exchange (IDX) during the period of 2010 to 2012 and presents its financial statements in company website or IDX website and present a complete financial statement data for the entire year of observation.
2. Companies that are not *delisted* and do not change their PAF during the observation period, in other words during the years 2010 - 2012 the company do not change the use of the financial statement audit services from *the big four* to *non big four* or vice versa.

Types and Sources of Data: Data used in this research are secondary data obtained from the website of the Stock Exchange (www.idx.co.id) in the period of 2010-2012. In addition, the data obtained from various journals published and used as reference are related with the problem in this study, the data are also sourced from auditing books and other supporting books.

Operational Definition and Measurement of Variables: There are two variables, they are the independent and the dependent, the dependent variable is *fraudulent financial statements* (Y) and the independent variables consist of audit quality (X1) and financial difficulties *(financial distress) (X2)*

Dependent Variables: Definition of *Fraudulent Financial Statement by the Association of Certified Fraud Examiners (ACFE)* in Rezaee (2002) is:

"The intentional, deliberate, misstatement, or omission of material facts, or accounting data is the which is misleading and, when Considered with all the information made available, would case the reader to change or alter his or her judgment or decision."

The Regression Measurement of *fraudulent financial statements* uses *F SCORE* proxy. The F *SCORE* is developed by Dechow (2008) and Skousen et.al (2009) in Sukrisnadi (2010). Clearly, it can be presented as follows:

***F-Score* = Predicted probability / unconditional probability**
Predicted probability = e(PredictedValue) / (1+ e(PredictedValue))
PredictedValue = a + *α1RSST accrual + α2ch_rec + α3ch_inv + α4ch_er + α5ch_cs + α6ch_roa + α7issue.*
Unconditional probability = 0.0037

The formula of *predicted value* is as follows:
RSST Accrual = (ΔWC + ΔNCO + ΔFIN) / *Average Total Assets*
WC = (*Current Assets – Cash and Short term Investments*) – (*Current Liabilities – Debt in Current Liabilities*)
NCO = (*Total Assets – Current Assets – Investment and Advances*) – (*Total Liabilities – Current Liabilities – Long Term Debt*)
FIN = (*Short Term Investments + Long Term Investments*) – (*Long Term Debt + Debt in Current Liabilities + Preferred Stock*)
ATS = (*Beginning total assets + end total assets*) / 2
Change in receivable*: *Δ Receivable / Average total Assets
Change in inventory: *Δ Inventory / Average total Assets*
Change in cash sales: *[(Δ Sales / sales (t)) – (Δ Receivable / receivable (t))]*
Change in earnings :*[(Earnings (t) / Average total Assets (t)) – (Earnings (t-1) /Average total assets (t-1))]*
Change in ROA = change in *return on assets*
Issue = variable indicating whether the company issues securities in that period.

Independent Variable

Quality Audit: De Angelo (1981) in Yustitia and Tarmidzi (2012) defines quality audit as a probability in which an auditor discovers and reports on the existence of a fraud in its *audit* accounting system, audit quality here is measured by a *dummy* variable with the number of 0 for company of *non big four* users and the number 1 for the company of *big four users.*

Financial *Distress* (financial difficulties): Platt and Platt (2002) define *financial distress* as a condition in which financial companies are not in good condition or are in crisis. *Financial distress* cannot be directly calculated but using a proxy Z score, where Z score models *Zmijewski,* because the Z score can be used to detect bankruptcy appropriately (Komang and Lely 2014). The formula is as follows:

ZFC = - 4.3 – 4.5 X1 + 5.7 X2- 0.0043 X3
X1 = *ROA* (net income/total assets)
X2 = *LEVERAGE* (Rate Debt/Total Assets)
X3 = *liquidity* (Current Assets / Current liabilities)

Data Analysis Method: The analysis technique used for this study is multiple regression analysis with the following equation:

Fraud: *β0 + β1PAF + β2 financial distress + ε*

3. Findings

Descriptive Statistics: In this study, qualitative data is analyzed by the elaboration of the descriptive statistics of the variables of research. The purpose of this test is to measure descriptive statistics *(mean,* maximum, minimum, and *standard deviation)* of all variables used in this research. Under Annex 1, the minimum value of financial distress condition variables of company is -5.2290, while the maximum value of the ZFC ratio is equal to 0.1263 with average value *(mean)* of -2.2715, the average negative value indicates that the company does not have the potential of bankruptcy while standard deviation is 1.1573. *Fraud* variables measured by *F-score* of the whole sample during the study shows a minimum value of 0.0556, while the maximum value of *F score* is equal to 5.5280. the average value of F score is equal to 0.2703, the low average value of *the F-score* shows little acts of *fraud* committed by the sampled companies. From these results, it can be concluded that the distribution of data variable of financial distress and *fraudulent* is quite good. Meanwhile, the audit quality as measured from *the big four* or *non Big Four* PAF of the sampled companies indicate that as many as 94 companies or 49.18% of the company sample is audited by *the Big Four* and the rest is audited by *non-Big Four* Public Accounting Firms.

Data Analysis

Classical Assumption Test: Classical assumption test aims to determine whether the regression model obtained can produce a good linear estimator prior to testing the hypothesis by using multiple regression analysis.

Multiple Linear Regression Testing: A statistical calculation in multiple linear regression analysis in this research is assissted by *SPSS for Windows* version 16. The use of multiple linear regression equation is to test the effect of independent variables (quality audits and *financial distress)* on the dependent variable *(fraudulent financial statement)*

Tabel 1: Result of Multiple Linear Regression Testing

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	.236	.0122		19.628	.000
	KAP	.018	.011	.127	1.645	.102
	ZFC	.013	.005	.217	2.806	.006

Fraud = 0.236 + 0.018 PAF+ 0.013 ZFC + e

Discussion

The Effect of Audit Quality on the Occurance of Fraudulent Financial Statement: Hypothesis 1 states that auditor quality which is reflected from the size of the *big four* Public Accounting Firms has no effect on the occurance of fraudulent financial statement. Based on the data analysis, the hypothesis is not supported. The result of linear multiple regression on the table shows that the size of Public Accounting Firms (*big four)*has significance higher than 0.05. This variable significance level of the size of big four Public Accounting Firms which is higher than 0.05, means that the size of *big four* Public Accounting Firms has no effect on the possibility of occuring *fraudulent financial statement*. This result is in line with Wisnu's research (2013) which states that either *big four* auditor or *non big four auditor* who has audited financial report, has no significant different from one to another on their financial report.The financial report audited by the *big four* auditor, does not guarrantee that the result is better than those audited by *non big four auditor.* Another reason is proposed by Veronica (2005) in Luhgianto (2010) which states that the quality of audit which is projected with the size of PAF of either big four or non big four, is unable to limit the occurance of *fraud*. This is becuase the management still wants to show good performance to those who want to be their investors. However, this study does not meet the theory which states that the *big four* PAF is able to decrease the occurance of *fraud,*and not in line with the research conducted by Yustitia andTarmidzi (2012) which state that audit quality reflected by the use of the *big four* PAF will decrease the presence of *fraud* than those who use the *non big four* PAF*.* Only a few of enterprises in Indonesia does use big public accounting firms like KPMG, Ernst and Young, PWC, and Deloitte. This is due to the ability of enterprise in paying the fee of audit service conducted. The service of Public Accounting Firms of big four is used by big companies in order to keep their image on people's opinion of good and competent audit used by them. The result of this study finds out that the enterprises audited by the *Big four* PAF has an increase rate of fraud.This means that the image of *Big four* PAF in Indonesia is lack of ability to detect early accounting fraud done by management.

The effect of Financial Distress on the Occurance of Fraudulent Financial Statement: Hypothesis 2 states that Financial Distress has positive effect on the occurrence of Fraudulent Financial Statement. Based on the data analysis, the hypothesis is supported. The result of regression on the table shows that Financial Distress ZFC has significant value of 0.006. This significant value is smaller than 0.05 which means that there is inability of company in meeting their obligations and their continuously loss condition. Such kind of loss pressures management because they are considered to be unable to carry out their duties. The pressure has effected much enough on their career in maintaining financial. By this, it is proven that the higher financial distress occured in a particular company is, the higher the fraud (AICPA) indicated to them will be. The result of the research above is in line with the research conducted by Hasnan *et.al* (2006) which states that Financial Distress has possitive effect on Fraudulent Financial Statement. This also meets the research conducted by Kinney dan McDaniel in Ansar (2011) which stated that financial report which is stated false is correlated to companies who are in a Financial Distress, and the management who know that the enterprise is in their way to get down, will motivate their employers to do unethically by making up the content of financial report which has been made before. In other words, Financial Distress has possitive effect on Fraudulent Financial Statement.

4. Conclusion, Limitations and Suggestions

This study is conducted to find empirical evidence on factors which can affect Fraudulent Financial Statement, consisiting of PAF and Financial Distress. Based on the discussion of tested hypotheses, it can be inferred that the effects of the independent varible in this study can be concluded as follows:

a. Based on the result of hypothesis 1 test, it is proven that PAF variable has no significant effect on the occurrence of Fraudulent Financial Statement. So, the hypothesis 1 (H1) is not supported.
b. Based on the result of hypothesis 2 test, it is proven that Financial Distress variable has significant possitive effect on the occurance of Fraudulent Financial Statement. So, Hypothesis 2 (H2) is supported.

Limitations of the research: This research has some limitations as follows:

a. This research is conducted in a short period. The period is only 3 years of observation. Thus, this research can not give a maximum result. Beside, this research only uses manufacturing companies, so that, it has no variation and the result can not give a comparison of Fraudulent Financial Statement occured*.*
b. This research uses a few number of sample, so that, it is used SPSS. Beside that, this research only has two variables, so that it is lack to give description of externals and internals who are in charge of this to take decision on any economic policy.

Suggestions: Based on the discussion of data analysis, it is suggested that:

a. Further research is suggested to add research period so that the sample of research which will be employed is bigger and widen the field of subject so that it will be not only on manufacturing company but also other sector such as bank, as a result, it will give information about fraud clearly.
b. If the further research uses a huge sample, so SAS can be used to test the hypotheses proposed. Further researcher can add and change independent variables which have effect on *fraud* such as *profitability, leverage* etc.

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APPENDICES

Appendix 1: Result of Descriptive Statistic 1

	N	Minimum	Maximum	Mean	Std. Deviation
ZFC	183	-5.2290	0.1263	-2.2715	1.1573
Fraud	183	0.0556	5.5280	0.2703	0.4130
Valid N (listwise)	183				

Source : tabulation of secondary data, 2014

Appendix 2: Result of Descriptive Statistic 2

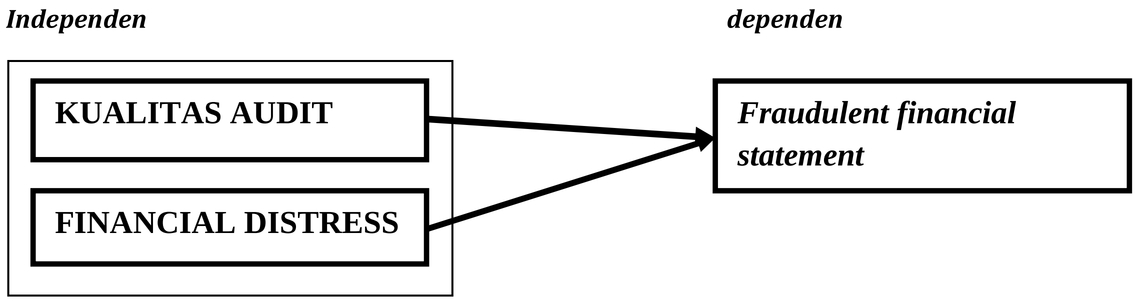
Auditor's Quality

Keterangan	Jumlah	Persentase
Non Big 4	93	50,82
Big 4	90	49.18
Total	183	100,0

Source : tabulation of secondary data, 2014

Appendix 3

Research framework



Appendix 4 : Normality test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		170
Normal Parameters[a]	Mean	.0000000
	Std. Deviation	.06898947
Most Extreme Differences	Absolute	.095
	Positive	.095
	Negative	-.042
Kolmogorov-Smirnov Z		1.243
Asymp. Sig. (2-tailed)		.091

Test distribution is Normal.
Source : tabulation of secondary data, 2014

Appendix 5 : Multicolinierity Test

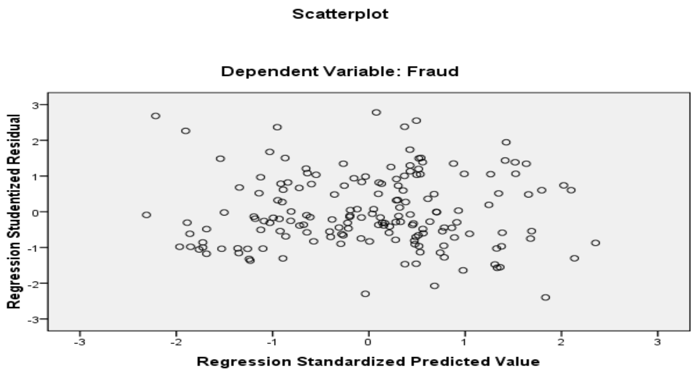
Variabel	Tolerance	VIF
KAP	0.951	1.052
ZFC	0.951	1.052

Source : tabulation of secondary data, 2014

Appendix 6 : Autocorrelation test

Model	Durbin-Watson
1	2.111

Appendix 7 : Heteroskedasticity test



Appendix 8. : F-Test

ANOVA[b]

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	.043	2	.022	4.488	.013[a]
Residual	.804	167	.005		
Total	.848	169			

a. Predictors: (Constant), ZFC, KAP

b. Dependent Variable: *Fraud*

Appendix 9 : Result of Coefisien of Determination

Model Summary[b]

Model	R	R Square	Adjusted R Square
1	.226[a]	.051	.040

a. Predictors: (Constant), ZFC, KAP

b. Dependent Variable: *Fraud*