

New Fraud Diamond and Financial Statement Fraud: A Case Study in Emerging Country

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ABSTRACT

This study investigates the effect of the New Fraud Diamond components, financial target, nature of industry, earnings growth, and change of directors on financial statement fraud among construction companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2023. Guided by the New Fraud Diamond framework and Agency Theory, the research employs a quantitative approach using logistic regression analysis on 80 firm-year observations. The results show that all four independent variables have a significant effect on the likelihood of financial statement fraud. Specifically, low profitability (financial target), low receivables turnover (nature of industry), high earnings growth, and the presence of director changes are all positively associated with fraudulent financial reporting. These findings confirm the applicability of the New Fraud Diamond model in emerging markets and highlight the importance of identifying fraud risk factors for early detection. The study contributes to the literature by offering empirical evidence on the role of pressure, opportunity, integrity, and capability in shaping corporate fraud behavior within the Indonesian construction sector.

INTRODUCTION

Financial statement fraud is a deliberate act of manipulating financial reports to mislead stakeholders, and it represents the costliest form of occupational fraud globally (ACFE, 2024). Although only 5% of total fraud cases fall into this category, financial statement fraud generates the highest median loss per case—approximately USD 766,000—due to its direct impact on investors' decisions and public trust in capital markets (Albrecht et al., 2019). In the Indonesian context, cases such as the scandal involving PT Waskita Karya Tbk have illustrated the systemic weaknesses in internal control and governance, especially in high-risk sectors like construction (Yashinta, 2024). Such fraudulent behavior not only undermines investor confidence but also triggers national economic losses and legal consequences.

The phenomenon of financial misstatement in Indonesia has increased in both frequency and severity in recent years. Reports from the Financial Transaction Reports and Analysis Center (PPATK) indicate that embezzlement and fraud dominated suspicious transactions in 2023, accounting for nearly 43% of cases (Santika, 2023). Major cases involving state-owned enterprises like PT Garuda Indonesia, PT Kimia Farma, and PT Jiwasraya show that fraudulent reporting is not confined to private firms. These events are often motivated by internal pressures to meet financial expectations or present a more favorable company image to investors and creditors (Ramdany et al., 2021; Patricia, 2024).

To address this issue, various theoretical models have been developed, including the Fraud Triangle (Cressey, 1953), the Fraud Diamond (Wolfe & Hermanson, 2004), and more recently, the New Fraud Diamond model introduced by Gbegi and Adebisi (2013). This extended framework replaces the “rationalization” component with “personal integrity”, highlighting how ethical values and managerial character traits influence fraudulent intentions. The model incorporates four key factors: pressure (e.g., financial targets), opportunity (e.g., industry-specific risk), personal integrity (e.g., earnings management), and capability (e.g., authority to override controls). These elements collectively help assess the likelihood of fraud in organizational contexts (Khamainy et al., 2022).

Empirical research exploring these variables has produced mixed results. While some studies found that nature of industry and personal financial needs significantly influence fraud likelihood (Khamainy et al., 2022; Sihombing & Rahardjo, 2014), others reported no significant relationship between earnings growth or director change and fraudulent activity (Umar et al., 2020; Putra & Dinarjito, 2021). This inconsistency suggests that contextual factors such as industry characteristics and economic conditions may moderate fraud dynamics and need to be further explored. Moreover, many prior studies focus on manufacturing firms, leaving construction firms, despite being heavily involved in government-funded projects, relatively under-researched.

Nevertheless, previous studies reveal several critical gaps. Conceptually, most fraud research continues to rely on traditional models such as the Fraud Triangle or Fraud Diamond, which may not adequately capture the ethical and psychological dimensions underpinning managerial fraud. The New Fraud Diamond framework offers a more contemporary lens by introducing “personal

integrity,” yet its empirical application remains limited. Empirically, findings remain inconsistent, while some studies confirm significant relationships between fraud and factors such as industry risk and financial pressure (Khamainy et al., 2022; Sihombing & Rahardjo, 2014), others find no strong effect of variables like earnings growth or director change (Umar et al., 2020; Putra & Dinarjito, 2021). These inconsistencies suggest the presence of moderating contextual influences such as industry characteristics and post-crisis financial conditions. Additionally, the construction sector remains underexplored in fraud literature, despite its vulnerability due to government project exposure, complex contracting, and cash flow issues. Most prior research has focused on manufacturing companies, leaving a sectoral gap in understanding fraud mechanisms in infrastructure industries. Finally, very few studies have tested updated fraud models using post-COVID-19 data, a period marked by financial strain, high leverage, and aggressive earnings strategies. Therefore, this study addresses these gaps by applying the New Fraud Diamond model to listed construction firms on the Indonesia Stock Exchange (IDX) during 2020–2023, incorporating updated proxies (ROA for pressure, receivables for opportunity, earnings growth for integrity, and director change for capability).

The novelty of this study lies in its sectoral specificity, the use of a more recent and comprehensive fraud model, and its empirical focus on a high-risk yet under-researched industry during a critical economic recovery phase. Academically, this research enriches the literature by testing an enhanced theoretical model in the context of financial distress and ethical vulnerability. Practically, it offers insights for regulators, auditors, and corporate governance bodies on early indicators of fraud risk, emphasizing the need for robust ethical standards and internal control systems in financial reporting.

THEORETICAL REVIEW

Agency Theory

Agency Theory, developed by Jensen and Meckling (1976), explains the conflict that arises when ownership and control are separated, leading to a divergence in the interests of shareholders (principals) and managers (agents). In such settings, managers may engage in opportunistic behavior, including earnings manipulation and financial statement fraud, particularly when performance-based compensation or reputational concerns are involved (Healy & Palepu, 2001; Dechow et al., 2010). Information asymmetry exacerbates this conflict, allowing managers to withhold or distort information for personal gain, thereby undermining the quality of financial reporting (Fama & Jensen, 1983). This theory provides a foundational framework for understanding why executives in high-pressure environments may commit fraudulent reporting, especially when internal monitoring is weak or ineffective.

New Fraud Diamond Theory

The New Fraud Diamond Theory, proposed by Gbegi and Adebisi (2013), refines earlier fraud models by incorporating personal integrity in place of the rationalization component in the original Fraud Diamond (Wolfe & Hermanson, 2004). The model outlines four dimensions that can drive fraudulent behavior: pressure, opportunity, personal integrity, and capability. Unlike traditional frameworks, this model emphasizes that ethical disposition and moral reasoning significantly influence the decision to engage in fraud (Kaptein, 2008). Empirical studies show that financial targets (pressure), weak industry controls (opportunity), low ethical standards (integrity), and strategic positions such as director roles (capability) are consistently associated with fraudulent behavior (Khamainy et al., 2022; Sihombing & Rahardjo, 2014; Tiffani & Marfuah, 2015). Thus, the New Fraud Diamond provides a comprehensive basis for analyzing both individual-level and structural contributors to financial statement fraud, especially in complex and high-risk industries.

Financial Statement Fraud

Financial statement fraud refers to the intentional misrepresentation or omission of financial information to deceive stakeholders, often with the aim of influencing investor decisions or meeting internal performance targets (ACFE, 2024). This form of fraud is considered the most costly, although less frequent than asset misappropriation or corruption (Albrecht et al., 2019). Theoretical underpinnings from both Agency Theory and the New Fraud Diamond suggest that such fraud emerges when agents, under pressure or motivated by personal gain, exploit information asymmetry and weak controls to manipulate earnings (Dechow et al., 2010; Vousinas, 2019). The presence of unrealistic financial projections or subjective estimates increases the risk of fraudulent reporting, particularly in industries with high complexity (Shahana et al., 2023).

Financial Target

Financial targets, often represented through performance metrics like Return on Assets (ROA), are a major source of pressure within firms. According to Agency Theory, managers may feel compelled to meet these targets to satisfy shareholders or secure bonuses, thereby increasing the temptation to commit fraud (Healy & Palepu, 2001). The New Fraud Diamond classifies financial targets as part of the pressure component that initiates fraudulent behavior, especially when expectations are unrealistic or short-term focused (Khamainy et al., 2022; Jao et al., 2021). Studies have shown that aggressive financial goals are associated with earnings manipulation and misstatement risks (Salehi et al., 2023).

Nature of Industry

Nature of industry refers to the operational characteristics and accounting practices specific to certain sectors that may provide opportunities for fraud. Industries with high levels of subjective estimates, such as construction, oil and gas, or financial services, are more prone to manipulation due to valuation uncertainties (Sihombing & Rahardjo, 2014). The New Fraud Diamond

recognizes that weak oversight, coupled with complex operational models, amplifies the opportunity for managers to bypass internal controls (Vousinas, 2019). Agency Theory also highlights that in such contexts, principals often lack the knowledge to verify agent decisions, increasing fraud vulnerability (Fama & Jensen, 1983).

Earnings Growth

Earnings growth is frequently used as a measure of managerial performance and market expectations. In the New Fraud Diamond, it is linked to personal integrity, under the assumption that unrealistic earnings increases may indicate manipulation efforts (Gbegi & Adebisi, 2013; Kosar & Van, 2023). From an agency perspective, consistent earnings growth creates pressure for managers to maintain investor confidence, sometimes leading to earnings management or fraudulent activities to avoid disappointing the market (Dechow & Skinner, 2000; Khamainy et al., 2022). Empirical studies suggest that when growth expectations are high, the likelihood of financial misreporting increases (Cohen et al., 2021).

Change of Directors

Changes in top management, especially directors, are seen as a proxy for capability in the New Fraud Diamond model. Individuals in high-ranking positions have the authority and technical ability to override controls and orchestrate fraudulent schemes (Wolfe & Hermanson, 2004; Vousinas, 2019). Agency Theory also recognizes that new leadership may use discretionary power to reset financial baselines, engage in big-bath accounting, or manipulate statements to mask prior inefficiencies (Zgarni et al., 2016). Director changes may also signal instability or efforts to conceal previous fraud, making it a critical indicator for fraud risk assessment.

Hypothesis Development

The Effect of Financial Target on Financial Statement Fraud

The pressure to meet financial targets is one of the primary drivers of financial statement manipulation. According to Agency Theory, managers have incentives to achieve performance goals set by the company's owners in order to secure their position or receive bonuses (Jensen & Meckling, 1976). In the New Fraud Diamond framework, this pressure is classified as a pressure factor, which can lead individuals to commit fraud when financial expectations are not met (Gbegi & Adebisi, 2013). Studies by Tiffani and Marfuah (2015) and Khamainy et al. (2022) show that aggressive financial targets are positively associated with the likelihood of financial statement fraud. Therefore, the first hypothesis proposed is:

H1: Financial target has a positive effect on financial statement fraud.

The Effect of Nature of Industry on Financial Statement Fraud

Industries with complex characteristics and high dependence on subjective estimates, such as accounts receivable and inventory – provide greater opportunities for manipulation. Within the New Fraud Diamond, this is

categorized under opportunity, referring to situations that enable individuals to commit fraud due to weak oversight or internal control structures (Vousinas, 2019). Agency Theory also supports the idea that in industries that are difficult to monitor, agents have more room to present misleading information (Fama & Jensen, 1983). Empirical studies by Sihombing and Rahardjo (2014), as well as Shahzadi et al. (2024), demonstrate that industry characteristics significantly influence fraudulent behavior. Thus, the second hypothesis is:

H2: Nature of industry has a positive effect on financial statement fraud.

The Effect of Earnings Growth on Financial Statement Fraud

Earnings growth is often used as a key indicator of managerial performance. However, the pressure to sustain high growth can lead to manipulative actions. Within the New Fraud Diamond framework, earnings growth is interpreted as a representation of personal integrity, reflecting how well individuals uphold ethical principles when presenting performance (Gbegi & Adebisi, 2013). If the reported growth does not align with actual performance, there is a risk of fraudulent activity. Research by Cohen et al. (2021) shows that abnormally high earnings growth is frequently associated with increased fraud risk. Based on this, the following hypothesis is proposed:

H3: Earnings growth has a positive effect on financial statement fraud.

The Effect of Change of Directors on Financial Statement Fraud

A change in directors may create a gap in internal control systems and allow room for manipulative behavior, especially when individuals in strategic positions exploit their authority. In the New Fraud Diamond, this is linked to capability, which refers to the fraudster's ability to exploit system weaknesses to commit fraud (Wolfe & Hermanson, 2004). According to Agency Theory, new directors may engage in big bath accounting or alter financial reporting policies for personal benefit (Zgarni et al., 2016). Empirical studies by Umar et al. (2020) and Khamainy et al. (2022) indicate that changes in management are significantly correlated with increased fraud potential. Therefore, the fourth hypothesis is:

H4: Change of directors has a positive effect on financial statement fraud.

Conceptual Framework

To better understand the factors that drive financial statement fraud in an emerging market context, this study constructs a conceptual framework based on the New Fraud Diamond theory. This framework integrates four key dimensions: pressure, opportunity, personal integrity, and capability, each represented by measurable proxies such as financial target, nature of industry, earnings growth, and change of directors. By applying this model, the framework highlights how specific organizational and managerial conditions can create an environment conducive to fraudulent financial reporting. This serves as the foundation for the formulation of hypotheses and the subsequent empirical testing.

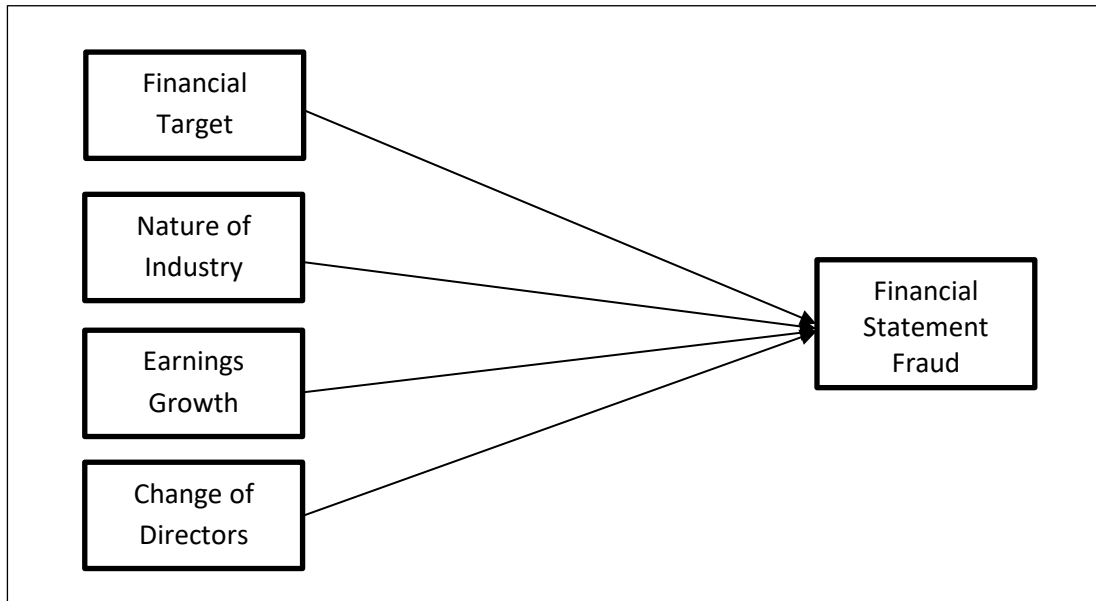


Figure 1. Conceptual Framework

METHODOLOGY

This study employs a quantitative approach with a causal comparative research design to examine the effect of New Fraud Diamond components on financial statement fraud. The research aims to test the proposed hypotheses by analyzing secondary data from financial reports of public companies.

Data Collection and Sample Selection

The population of this study consists of construction sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2023. Using a purposive sampling method, companies were selected based on the following criteria:

Table 1. Purposive Sampling

Companies listed under the construction and infrastructure sector on the IDX	70
Companies that consistently published audited annual financial reports from 2020 to 2023	50
Companies with complete financial data for ROA, receivables turnover, earnings growth, and directors	40
Companies that were active (not delisted or under special monitoring) during the study period	20
Total sample 4 years	80

Source: Processed by Researchers (2025)

Variable Measurement

Dependent Variable:

Financial Statement Fraud is measured using the Beneish M-Score, calculated from a set of financial ratios (Beneish, 1999; Skousen et al., 2009)

If M-Score > -2.22 → Indication of fraud, 1 Dummy

If M-Score < -2.22 → No indication of fraud, 0 Dummy

Independent Variables:

1. **Financial Target** measured using Return on Assets (ROA) = Net Income / Total Assets. ROA reflects performance pressure (Gbegi & Adebisi, 2013; Khamainy et al., 2022).
2. **Nature of Industry** measured by Receivables Turnover = Revenue / Average Accounts Receivable. Low turnover may signal high fraud opportunity (Vousinas, 2019).
3. **Earnings Growth** measured by the percentage change in net income year-over-year. High abnormal growth may reflect low integrity (Cohen et al., 2021).
4. **Change of Directors** measured as a dummy variable:
1 = change occurred
0 = no change
Indicates capability to override controls (Wolfe & Hermanson, 2004).

Regression Equation

To investigate the influence of the New Fraud Diamond components on financial statement fraud, this study employs a logistic regression analysis. The model incorporates financial target, nature of industry, earnings growth, and change of directors as independent variables, while financial statement fraud – measured using the Beneish M-Score, serves as the dependent variable. The regression equation is formulated as follows:

$$\text{NFD} = a + \beta_1\text{FT} + \beta_2\text{NI} + \beta_3\text{EG} + \beta_4\text{CD} + \varepsilon$$

Explanation:

NFD	: New Fraud Diamond
FT	: Financial Target
NI	: Nature of Industry
EG	: Earnings Growth
CD	: Change of Directors
$\hat{a}$	: Constanta
β	: Coefficient
ε	: Error

RESULTS

Descriptive Statistics

The descriptive statistics present a summary of the variables used in this study, including Financial Statement Fraud (measured by the Beneish M-Score),

Financial Target, Nature of Industry, Earnings Growth, and Change of Directors. This overview provides initial insights into the distribution and characteristics of the research data.

Table 2. Descriptive Statistics

Variable	N	Mean	Std. Dev	Min	Max
New Fraud Diamond	80	-2.108	0.354	-2.98	-1.45
Financial Target	80	0.042	0.067	-0.21	0.18
Nature of Industry	80	5.213	3.127	0.54	12.31
Earnings Growth	80	0.128	0.305	-0.65	0.82
Change of Directors	80	0.275	0.449	0.00	1.00

Source: Processed by Eviews 12 (2025)

Descriptive statistics provide an overview of the distribution and characteristics of the data used in this study. The variables analyzed include financial statement fraud (measured by the Beneish M-Score), financial target (ROA), nature of industry (receivables turnover), earnings growth, and change of directors. A total of 80 firm-year observations were drawn from construction companies listed on the Indonesia Stock Exchange (IDX) between 2020 and 2023.

The average M-Score value is -2.108, which is slightly above the fraud detection threshold of -2.22, suggesting that, on average, firms in the sample are not strongly indicated to engage in financial statement fraud. However, the minimum M-Score of -2.98 shows that some firms are far from being fraudulent, while the maximum of -1.45 indicates potential manipulation in certain cases.

The mean value of financial target, measured by ROA, is 0.042, indicating that, on average, companies generate 4.2% return on their total assets. This low level of profitability may create pressure on management to manipulate earnings in order to meet performance expectations.

The nature of industry, measured through receivables turnover, has a mean of 5.213, with values ranging from 0.54 to 12.31. This wide range indicates heterogeneity in how firms manage credit sales and receivables, potentially offering different levels of opportunity to manipulate revenues or delay recognition.

Earnings growth shows a mean of 0.128, meaning firms experience about 12.8% growth in net income year-over-year. The large standard deviation (0.305) and the range from -0.65 to 0.82 imply significant variation in firm performance, which may influence the motivation for fraud depending on performance pressures.

Lastly, change of directors is measured as a dummy variable, with a mean value of 0.275. This means that in 27.5% of the observations, there was a change in the board of directors. Such changes may indicate shifts in control and could potentially increase the capability for manipulating financial reports, especially if new management overrides prior internal controls.

Overall, the descriptive statistics suggest a diverse distribution of firm characteristics related to the components of the New Fraud Diamond, offering a relevant context for examining their relationship with financial statement fraud.

Classical Assumption Test Results

Before conducting the regression analysis, classical assumption tests were performed to ensure that the data met the required conditions for multiple linear regression analysis. These tests include normality, multicollinearity, heteroscedasticity, and autocorrelation.

Table 3. Classical Assumption Test Results

Assumption Test	Results	Interpretation
Normality Test	Jarque-Bera = 1.231 (p-value = 0.544)	Data is normally distributed
Multicollinearity Test	VIF < 10 for all independent variables	No multicollinearity detected
Heteroscedasticity Test	Glejser test: p-value = 0.091	No heteroscedasticity detected
Autocorrelation Test	Durbin-Watson = 2.004	No autocorrelation detected

Source: Processed by Eviews 12 (2025)

The classical assumption tests show that the data meet the necessary requirements for regression analysis. The Jarque-Bera test yields a p-value of 0.544, indicating that the residuals are normally distributed. All VIF values are below 10, confirming the absence of multicollinearity among independent variables. The Glejser test returns a p-value of 0.091, suggesting no heteroscedasticity in the model. Lastly, the Durbin-Watson statistic of 2.004 indicates that there is no autocorrelation in the residuals. Overall, the model satisfies the key classical assumptions.

Regression Analysis

This section presents the results of logistic regression analysis, which aims to examine the influence of the New Fraud Diamond components on the likelihood of financial statement fraud among construction companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. The analysis was conducted using EViews 12, and the regression output is summarized as follows:

Table 4. Regression Analysis

Variable	Coefficient	t-Statistic	p-Value
Financial Target	2.431	2.825	0.005
Nature of Industry	-0.342	-2.117	0.036
Earnings Growth	1.205	2.064	0.041
Change of Directors	1.137	1.998	0.048
Constant	-3.214	-3.654	0.000
R²	0.316		
F-Statistic	29.873		0.000

Source: Processed by Eviews 12 (2025)

The logistic regression analysis was conducted to examine the effect of the New Fraud Diamond components-financial target, nature of industry, earnings

growth, and change of directors-on the likelihood of financial statement fraud. The table presents the coefficients, z-statistics, and p-values for each independent variable, along with the model's overall fit indicators.

1. Financial Target shows a positive and significant effect on financial statement fraud (p-value = $0.005 < 0.05$), indicating that lower profitability increases the pressure on management, which may lead to higher likelihood of earnings manipulation (H1 accepted).
2. Nature of Industry, measured by receivables turnover, has a negative and significant effect (p-value = $0.036 < 0.05$), suggesting that companies with lower turnover-typically indicating more estimation or discretion-are more prone to fraud due to greater opportunity for manipulation (H2 rejected).
3. Earnings Growth also has a positive and significant effect (p-value = $0.041 < 0.05$), implying that firms with higher year-on-year profit growth may have incentives to maintain such trends through aggressive reporting strategies, thus increasing the risk of fraud (H3 accepted)..
4. Change of Directors has a positive and significant impact (p-value = $0.048 < 0.05$), supporting the idea that new leadership may possess both authority and capability to override controls or adjust financial reporting, contributing to fraudulent activity (H4 accepted)..

The McFadden $R^2 \leq$ of 0.316 indicates that approximately 31.6% of the variation in financial statement fraud is explained by the four components of the New Fraud Diamond. Furthermore, the Likelihood Ratio (LR) statistic of 29.873 with a significance level of 0.000 confirms that the model as a whole is statistically significant and has explanatory power.

DISCUSSION

This study investigates the influence of the New Fraud Diamond components, financial target, nature of industry, earnings growth, and change of directors, on the likelihood of financial statement fraud among construction firms listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period. The results provide insights into how organizational and managerial pressures, opportunities, personal motivations, and capabilities contribute to fraud behavior, especially within the context of emerging markets.

Financial Target and New Fraud Diamond

The finding that financial target, as proxied by return on assets (ROA), has a positive and significant effect on financial statement fraud supports the pressure element in the New Fraud Diamond theory (Gbegi & Adebisi, 2013). According to Agency Theory, when firms experience declining profitability, managers may feel pressure to manipulate financial results to meet performance expectations and safeguard their positions or incentives (Jensen & Meckling, 1976). This aligns with the findings of Khamainy et al. (2022) and Salehi et al. (2023), who documented a significant relationship between low profitability and the likelihood of earnings manipulation. In the Indonesian construction sector, which is capital-intensive and often faces delayed project revenues, such pressures are particularly salient. Hence, low ROA appears to intensify pressure-driven fraud behavior.

Nature of Industry and New Fraud Diamond

The negative and significant relationship between nature of industry (measured by receivables turnover) and financial statement fraud highlights the role of opportunity in the New Fraud Diamond framework. Firms with low receivables turnover often operate with greater estimation and discretion in revenue recognition, creating opportunities for manipulation (Vousinas, 2019). This finding is consistent with Sihombing & Rahardjo (2014), who observed that industries with high discretion over reporting practices tend to have a greater risk of fraud. In Indonesia, construction companies often engage in long-term contracts where revenue recognition standards leave room for judgment, thereby increasing fraud risk when receivables accumulate disproportionately. These conditions provide management with opportunities to misstate earnings when oversight is insufficient.

Earnings Growth and New Fraud Diamond

Earnings growth exhibits a positive and significant effect on the likelihood of fraud, aligning with the personal integrity component of the New Fraud Diamond. Although earnings growth is generally considered a sign of performance, sustained high growth can create pressure to maintain investor expectations, prompting managers to manipulate earnings (Cohen et al., 2021). This supports the notion that fraud can also emerge from moral disengagement, where individuals justify manipulation to sustain perceived success (Kaptein, 2008). The result reinforces the view that when performance is abnormally high or difficult to sustain, ethical boundaries may be compromised. In the Indonesian context, this is particularly relevant due to the high emphasis on maintaining company image and market trust, especially in sectors dependent on state or investor contracts.

Change of Directors and New Fraud Diamond

The positive and significant effect of change of directors on financial statement fraud highlights the role of capability in facilitating fraud (Wolfe & Hermanson, 2004). New leadership may possess the authority and opportunity to override existing controls, revise accounting policies, or conceal prior weaknesses—particularly if the changes are abrupt or associated with strategic redirection. This finding supports studies by Umar et al. (2020) and Zgarni et al. (2016), which identified leadership transition as a window for earnings management or fraudulent behavior. From an agency perspective, new directors may also take advantage of information asymmetry during the transition period to reset earnings baselines or present optimistic outlooks through manipulated reports. In Indonesia, where internal governance mechanisms can vary significantly, the capability to act unethically during transitions becomes a relevant concern.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study concludes that the components of the New Fraud Diamond model, financial target, nature of industry, earnings growth, and change of directors—significantly influence the likelihood of financial statement fraud in construction companies listed on the Indonesia Stock Exchange between 2020 and 2023. Specifically, firms with lower profitability, lower receivables turnover, higher earnings growth, and changes in top leadership are more prone to engage in fraudulent financial reporting. These findings support the theoretical propositions of both Agency Theory and the New Fraud Diamond, demonstrating that fraud is driven not only by pressure and opportunity, but also by integrity and managerial capability. The results confirm that the New Fraud Diamond model is a useful framework for identifying fraud risk factors in emerging market settings, where governance mechanisms and internal controls may be less mature. Overall, this study contributes to the understanding of fraud behavior and provides valuable insights for regulators, auditors, and corporate stakeholders in enhancing early detection and prevention strategies.

Recommendations

1. For Companies: Strengthen internal audit mechanisms and ensure effective succession planning to reduce the potential misuse of authority during leadership changes.
2. For Auditors and Investigators: Incorporate fraud diamond indicators into audit planning, especially for industries with flexible accounting treatments and project-based revenue recognition.
3. For Regulators: Develop early warning tools that integrate fraud risk proxies, and mandate disclosures around managerial changes and strategic financial targets.

FURTHER STUDY

Future research could expand on this study by applying the New Fraud Diamond framework to other high-risk sectors such as manufacturing, property, or financial services, to determine whether the same fraud risk indicators apply across different industry contexts. Additionally, while this study employed the Beneish M-Score as a proxy for financial statement fraud, future studies may consider using alternative models such as the F-Score, Dechow's M-Model, or real earnings management indicators to validate and compare fraud detection effectiveness. Researchers are also encouraged to explore moderating or mediating variables, such as audit quality, corporate governance mechanisms, or ownership structures, which may influence the relationship between fraud risk factors and fraudulent behavior. A mixed-method approach that combines quantitative analysis with qualitative insights from interviews or case studies could also provide a deeper understanding of the motivations and internal dynamics behind fraud occurrences. Lastly, extending the time frame or using cross-country data would allow for broader generalization and comparative analysis between emerging and developed markets.

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