

Analyzing Fraud Diamond for Detecting Fraud Committed with Religiosity as Intervening Variable: Study in Manufacturing Company's Managers in East Java

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Abstract

This research was conducted to find out the reasons why a manager commits fraud. Diamond fraud model was used in this research. Religiosity variables are used as intervening variables to determine the effect of religiosity in intervening fraudulent actions among managers of manufacturing companies in East Java. The data analysis techniques used in this study were descriptive analysis and path analysis. The results of the analysis test in this study resulted in several conclusions, namely the Fraud diamond factor proved to have a significant effect on fraud (Fraud) committed by managers of manufacturing companies in East Java. Meanwhile, Fraud diamond (Incentive) factors proved to have no significant effect on fraud (Fraud) committed by managers of manufacturing companies in East Java. In addition, Religiosity was also not able to interfere strongly with the relationship between Fraud diamond on fraud (Fraud) committed by managers of manufacturing companies in East Java. In conclusion, this result of this research proves that the level of religiosity of a manager is not necessarily able to suppress fraud that is committed in the company.

Keywords: Financial Management Fraud, Religiosity

Abstrak

Penelitian ini dilakukan untuk mengetahui alasan seorang manajer melakukan kecurangan. Model penipuan berlian digunakan dalam penelitian ini. Variabel religiusitas digunakan sebagai variabel intervening untuk mengetahui pengaruh religiusitas dalam melakukan intervensi tindakan fraud di kalangan manajer perusahaan manufaktur di Jawa Timur. Teknik analisis data yang digunakan dalam penelitian ini adalah analisis deskriptif dan analisis jalur. Hasil uji analisis pada penelitian ini menghasilkan beberapa kesimpulan yaitu faktor Fraud diamond terbukti berpengaruh signifikan terhadap Fraud (Fraud) yang dilakukan oleh manajer perusahaan manufaktur di Jawa Timur. Sedangkan faktor Fraud diamond (Incentive) terbukti tidak berpengaruh signifikan terhadap Fraud (Fraud) yang dilakukan oleh manajer perusahaan manufaktur di Jawa Timur. Selain itu, Religiusitas ternyata juga tidak mampu mengganggu secara kuat hubungan antara Fraud diamond pada fraud (Fraud) yang dilakukan oleh para manajer perusahaan manufaktur di Jawa Timur. Kesimpulannya, hasil penelitian ini membuktikan bahwa tingkat religiusitas seorang manajer belum tentu mampu menekan kecurangan yang dilakukan di perusahaan.

Kata kunci: Penipuan Manajemen Keuangan, Religiusitas

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INTRODUCTION

Fraud in the financial report has an immensely negative effect on the company, making the information irrelevant and unreliable. Presentation of wrong data in a financial report turns the information to be improper for decision making because the analysis is based on invalid information.

Fraud can occur in any form. 2016 reports from the Association of Certified Fraud Examiners (ACFE) summarizes 3 (three) types of fraud in Indonesia. Those are corruption, asset misappropriation, and financial statement fraud.

Table 1. Most harmful *fraud* in Indonesia

No.	Types of Fraud	Number of Cases	Percentage
1.	Corruption	178	77%
2.	Asset Missappropriation	41	19%
3.	Financial Statement Fraud	10	4%

Source: ACFE, 2016.

Financial statement fraud only ranks the third in the list, but it is extremely detrimental to the shareholders. In addition, Report to the Nations on Occupational Fraud and Abuse (ACFE, 2014) discovers about 77 % fraud was conducted by individuals through departments, such as accounting, operational, sales, executives or high-level management, customer services, purchase, and finance.

Capital Market Supervisory Agency (BAPEPAM), now the Financial Services Authority (OJK), identified some companies which conducted fraud in 2018. One of them was PT. SNP Finance Tbk. which inflicted damage to 14 banks in 2017 and the case was revealed in 2018. The public accountant office which audited the company in question was sanctioned severely as stated in OJK press release OJK SP 62/DHMS/OJK/X/2018. Another fraud was performed by PT. Bank Bukopin, Tbk, which was suspected to have manipulated its credit card data. This fraud led the company management to revise its 2015-2017 financial reports. OJK discovering those phenomena provides evidence that financial statement fraud may still occur frequently in Indonesia.

Indonesia has a positive industrial growth. The growth of non-oil processing industry in the first quarter of 2018 was sufficiently high at 5.03% (yoy). This number was lower than the growth rate of the 2017 fourth quarter, 5.14% (yoy) but higher than 4.80% (yoy) of the first quarter of 2017. The highest rate of growth was experienced by machinery and equipment industries which reached as high as 14.98% (yoy), followed by the food and beverage industries which experienced 12.7% (yoy) growth (Kementrian Perindustrian, 2018).

The growths were supported as Indonesian industrial zones expanded. One of the industrial zones was that of East Java. East Java is extremely large compared to other provinces in the same island, Java. This province is also the second populous province in the island of Java. Accordingly, East Java is a suitable area for industrial zone development. Industrial zones in East Java include factories, warehouses, and international port and

airport. All of these contribute to making the overseas investors consider East Java a good place for investment.

The populace of East Java is also famously known to be religious. Religiosity is deemed an important factor for companies. Companies assume that religious people are expected to work honestly and perform no fraud. Such an assumption is expected to attract companies to invest in East Java.

Some researches are trying to analyze fraud diamond to detect fraud. One of them was done by Sihombing (2014) entitled *An Analysis of Fraud Diamond to Detect Financial Statement Fraud: Empirical Study on Manufacturing Companies Listed in Indonesia Stock Exchange in the years of 2010-2012*. Annisya et al. (2016) also reported their research, *Using Fraud Diamond for Fraud Statement Detection* which had a total sample of 27 real estate companies listed in Indonesia Stock Exchange from 2010 to 2014. Unfortunately, some of the previous researches still failed to specifically identify earning managements' acts from the point of view of a manager. Therefore, this research was conducted to identify the reasons why a manager commits fraud. This research also added religiosity as an intervening variable to identify the role of religiosity to intervene in a fraud act within circles of managers of the manufacturing company in East Java.

Theory of Reasoned Action was first formulated in 1967 to provide consistency in the relationship study between behaviour and attitude (Fishbein and Ajzen, 1975). According to Ajzen and Fishbein (1975), Theory of Reasoned Action assumes that one's behaviour is determined by one's intention to perform or not to perform a particular behaviour, or vice versa. The intention is defined by two independent variables, namely attitude and subjective norms.

The Theory of Reasoned of Action presented by Ajzen and Fishbein (1975) became the grand theory of this research. This research revealed that a manager's procrastinative attitude is influential to fraud committing. The focus of this research was the attitude over behaviour, that is the procrastinative attitude of a company manager towards the act of the financial statement fraud. Attitudes that lead to delaying work completion are called procrastination. Such action may trigger the actor to commit fraud.

Legitimacy theory states organization is a part of the society, so it needs to heed to the society's social norms. Accordingly, it is a company's conformity to social norms that make it more legitimate. Organization operations must also be within society's expectations. Legitimacy is obtained when the existence of the organizations is conforming or congruent with the value system existing in the society and environment. One step to incongruency will threaten the company's legitimacy.

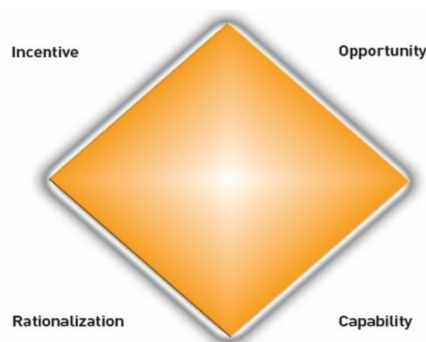
Fraud clearly contradicts social norms. As such, fraud triggers moral and material losses, such as organization's disreputation and organization loss, state financial loss, employees' amorality, and other negative aspects. Therefore, the existence and legitimacy of a company or organization in the society must be maintained through good organizational management which effectively imposes internal control to prevent and avoid fraud. One possible act of fraud prevention is to identify the causing factors that lead to fraud.

Zimbelman et al (2014) state that fraud is an act committed intentionally, consciously,

and knowingly to abuse everything owned collectively, for example, company and state resources, for personal comfort and then present misinformation to cover such an abuse. Fraud is different from unintentional error. Someone entering the wrong data by mistake when recording a transaction does not commit a fraud, because his mistake is unintentional. However, if someone insidiously manipulates a financial statement to attract a prospective investor to invest in his company, then he is committing a fraud.

Fraud diamond, formulated by Wolfe dan Hermanson (2004), is trying to view fraud from a new perspective. Perfected from Cressey's theory (1953) of the fraud triangle, fraud diamond adds a qualitative element, capability, which is believed to have a significant effect on fraud. The fraud diamond theory is described in the following picture.

Figure 2. Fraud Diamond



Elements of fraud diamond theory include incentive, opportunity, rationalization, and capability. This research employed fraud diamond theory as a part of the main theories. The Great Dictionary of Indonesian Language defines religion (religion) as a belief toward god, while religiosity as the degree of human nature's religion of human nature, so religiosity can be defined as the degree of someone's devotion to God in practising his religion. Religiosity can be defined as an integrated system constituted by belief, lifestyle, ritual activities, and institution which gives meanings to human life and guides humanity to sacred or highest values. (Glock and Stark, 1965).

The assumption that measuring religiosity is difficult starts to wane due to the development of religiosity measurement in the field of psychology, theology, and sociology. Glock and Stark (1965) write that religiosity is usually defined as (a) Cognition (religious knowledge, religious belief), (b) Affect, which is related to emotional attachment or emotional feelings about religion, and, (c) Behaviour, such as presence and affiliation with places of worship, attending the liturgy, reading holy books, and prayers.

Religiosity measurement, according to Glock dan Stark (1965), can be classified into the following aspects: (1) Religious Practice (the ritualistic dimension), (2) Religious belief (the ideological dimension), (3) Religious Knowledge (the intellectual dimension), (4) Religious feeling (the experiential dimension), (5) Religious Effect (the consequential dimension).

High-level religiosity can drive people to fear their god, so they will believe in retribution or punishment from their god for their wrongdoings. Religion also clarifies what is right

and wrong. Therefore, it can be concluded that a person with a high level of religiosity will not commit fraud because it violates the principles of religion he practices.

Fraud-committing companies tend to have a relatively high capital cost. To reduce the risk of financial statement fraud, corporate governance has also been linked to financial statement fraud. This is supported by the arguments of Dechow (1994) in Skousen et al. (2009) that fraud and deceit cases are more common in companies with weak or poor corporate governance. Several later, Farber's (1991) research also reveals that credibility remains a problem for companies that have committed financial statement frauds, even though they have changed their corporate governance.

Many studies investigated fraud as their subject, particularly financial fraud detection. Cressey (1953) in Skousen et al. (2009) concluded that fraud generally shares three common traits. First, embezzlers have the opportunity to perpetuate fraud. Second, non-shareable financial needs (pressure). Third, individuals involved in a fraud rationalize the fraudulent act as being consistent with their codes of ethics. Thus, the fraud risk factors are pressure, opportunity and rationalization, or referred to as "fraud triangle". Then, Wolfe and Hermanson (2004), in addition to the factors of pressure, opportunity, and rationalization add another factor, i.e. capability. This element is a complement to the fraud triangle model from Cressey's 1953 study.

Capability, according to Wolfe and Hermanson (2004), is how much power and capacity of a person have to commit fraud in the corporate environment. With the addition of capability as another factor, the fraud triangle turns into a fraud diamond. Agreeing with Wolfe and Hermanson (2004), Manurung and Hardika (2015) also find that capability influences the committing of financial statement fraud. Thus, the following hypotheses were presented:

H₁: Fraud diamond Opportunity has an influence toward Fraud.

H₂: Fraud diamond Incentive has an influence toward Fraud.

H₃: Fraud diamond Rationalization has an influence toward Fraud.

H₄: Fraud diamond Capability has an influence toward Fraud.

Fraud may occur because a person or individual does not have a good religious principle. Individuals, ideally, should have the intellectual capacity and knowledge regarding religion as a driving force and control of their actions to ensure their doings are in accordance with cultural values and religious principles, so as to maintain order and prevent fraud (Basri, 2015). The results of research conducted by Conroy and Emerson (2004) show that people who have a strong commitment to their religions are able to make decisions which do not contradict their moral beliefs. The results of this study tally with Purnamasari's research (2014) which concludes that the level of religiosity is also one factor that can influence one's commitment to fraud. Therefore, the following hypothesis was proposed:

H₅: Religiosity is able to strengthening the relationship between fraud diamond and fraud.

METHOD

This is a quantitative research, and the data used in this research was primary data. Population in this research was the managers in manufacturing companies in East Java. The sampling technique used was *purposive sampling*. Criteria of samples in this research were:

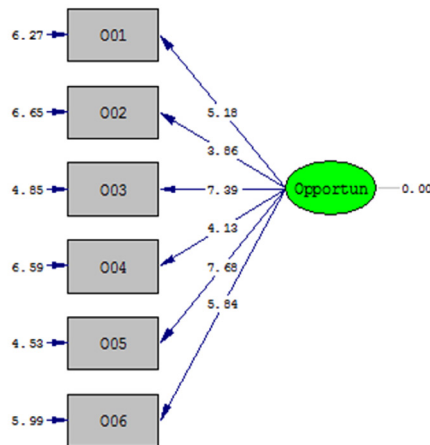
1. People who have hold the position of manager in a manufacturing company in East Java for at least two years since 2016.
2. People who have hold the position of manager in a manufacturing company in East Java especially accounting managers since 2016.

The number of samples in this research was 100 accounting managers in manufacturing companies in East Java. The data collection methods of this research were literature study and field research. Field research used in this research was conducted through distributing questionnaires. The assessment of answers given by the respondent was processed using Likert scale.

RESULT AND DISCUSSION

Instrument testing was performed in two phases, i.e. validity testing and reliability testing. The results of the validity and reliability testing on the research instruments are presented in the following:

Figure 4. The Result of Validity Test on Fraud Diamond (Opportunity)



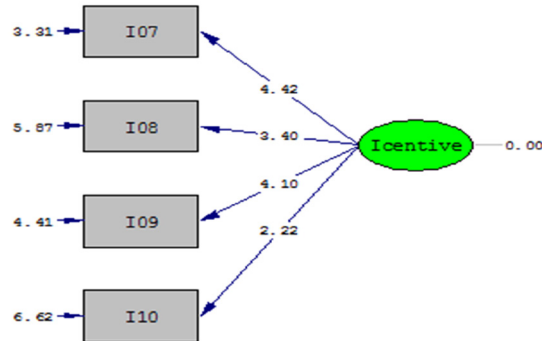
Chi-Square=10.42, df=9, P-value=0.31732, RMSEA=0.040

Source: The Result of Data Processing, 2019.

No.	Question	Loading > 1,96 (T-Value)	Conclusion
1.	O01	5,18	Valid
2.	O02	3,86	Valid
3.	O03	7,39	Valid
4.	O04	4,19	Valid
5.	O05	7,68	Valid
6.	O06	5,64	Valid

The results presented show that all statements on fraud diamond (opportunity) used in this research are valid.

Figure 5. The Result of Validity Test on Fraud Diamond (Incentive)

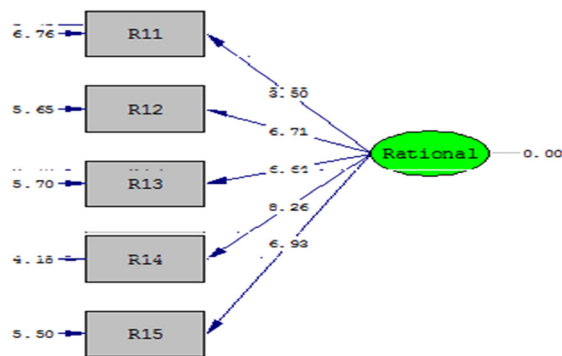


Source: The Result of Data Processing, 2019.

No.	Questions	Loading > 1,96 (T-Value)	Conclusion
1.	I07	4,42	Valid
2.	I08	3,40	Valid
3.	I09	4,10	Valid
4.	I10	2,22	Valid

The results imply that all statements on fraud diamond (Incentive) used in this research are valid.

Figure 6. The Result of Validity Test on Fraud Diamond (Rationalization)



Source: The Result of Data Processing, 2019.

No.	Question	Loading > 1.96 (T-Value)	Conclusion
1.	R11	3.50	Valid
2.	R12	6.71	Valid
3.	R13	6.64	Valid
4.	R14	8.26	Valid
5.	R15	6.92	Valid

The results presented prove that all statements about fraud diamond (Rationalization) used in this research are valid.

Table 1. The Result of Fraud Diamond (Capability) Validity Test

		Correlations					
		C16	C17	C18	C19	C20	Capability_X4
	Pearson Correlation	,559**	,556**	,559**	,378**	,343**	1
Capability_X4	Sig. (2-tailed)	,000	,000	,000	,000	,000	
	N	100	100	100	100	100	100

** . Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source: The Result of Data Processing, 2019.

The conclusion is all items are higher than r table 0.195 (Based on the level of significance, i.e. 5% with N = 100, r value table is determined at 0.195) which means that all statements on fraud diamond (capability) in this research are valid.

Table 2. The Result of Fraud Diamond (Religiosity)

		Correlations		
		R21	R22	Religiosity_Z
	Pearson Correlation	,521**	,785**	1
Religiosity_Z	Sig. (2-tailed)	,000	,000	
	N	100	100	100

** . Correlation is significant at the 0.01 level (2-tailed).

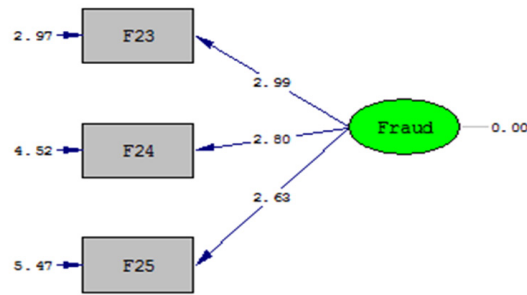
Source: The Result of Data Processing, 2019.

The result shows all items are higher than r table 0.195 (Based on the level of significance, i.e. 5% with N = 100, r value table is determined at 0.195) which means that all statements on fraud religiosity in this research are valid.

No.	Questions	Loading > 1,96 (T-Value)	Conclusion
1.	F23	2.99	Valid
2.	F24	2.80	Valid
3.	F25	2.63	Valid

The results presented show that all statements about fraud diamond used in this research are valid.

Figure 7. The Result of Validity Test on Fraud



Source: The Result of Data Processing, 2019.

Table 3. The Result of Reliability Testing

Case Processing Summary			
		N	%
Cases	Valid	100	100,0
	Excluded ^a	0	,0
	Total	100	100,0
Reliability Statistics			
Cronbach's Alpha		N of Items	
,862		31	

a. Listwise deletion based on all variables in the procedure.

Source: The Result of Data Processing, 2019.

This outcome concluded that Alpha value is greater than r table, $0.862 > 0.195$ (Based on the significance level of 5% with $N = 100$, r value table is determined at 0.195). Therefore, it proved that all statements in this research are reliable. The following descriptive analysis will elaborate the overall data variables used in this study. The respondents are managers, 35% were male and the rest 65% were female.

Table 4. Characteristics of respondents based on their gender.

		Gender			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	35	35.0	35.0	35.0
	Female	65	65.0	65.0	100.0
	Total	100	100.0	100.0	

Source: Processed Data, 2019.

Table 5. The Result of Descriptive Statistics Test – Fraud diamond (Opportunity- X_1)

Indicator	SS (5)	S (4)	N (3)	TS (2)	STS (1)	Respondents
O01	6	59	34	1	-	100
O02	13	68	19	-	-	100
O03	12	64	23	1	-	100
O04	8	49	37	6	-	100
O05	10	50	39	1	-	100
O06	6	36	44	11	3	100
TOTAL	55	326	196	20	3	
Mean	0.55	3.26	1.96	0.20	0.03	

Source: Research Data Tabulation, 2019.

Table 5 reveals that most respondents tended to agree that fraud diamond (Opportunity- X_1) is able to influence fraud. It is proven by the mean value which reaches 3.26.

Table 6. The Result of Descriptive Statistics Test – Fraud diamond (Incentive- X_2)

Indicator	SS (5)	S (4)	N (3)	TS (2)	STS (1)	Respondents
I07	9	62	26	2	1	100
I08	7	44	42	5	2	100
I09	15	61	21	3	-	100
I10	9	62	26	2	1	100
TOTAL	40	229	115	12	3	
Mean	0.40	2.29	1.15	0.12	0.4	

Source: Research Data Tabulation, 2019.

Information from Table 6 tells us that most respondents had a tendency to agree that Fraud diamond (Incentive- X_2) is strongly influential toward their fraudulent acts. The mean of the Fraud diamond (Incentive- X_2), however, is still very low, at 1.15. This shows that Fraud diamond (Incentive- X_2) is not a main factor that triggers fraud.

Tabel 7. The Result of Descriptive Statistics Test – Fraud diamond (Rationalization- X_3)

Indicator	SS (5)	S (4)	N (3)	TS (2)	STS (1)	Respondents
R11	9	62	26	2	1	100
R12	7	44	42	5	2	100
R13	15	61	21	3	-	100
R14	9	62	26	2	1	100
R15	15	61	21	3	-	100
TOTAL	55	229	136	15	3	
Mean	0.55	2.90	1.36	0.15	0.3	

Source: Research Data Tabulation, 2019.

Table 7 reveals that most respondents tended to agree that Fraud diamond (Rationalization- X_3) plays a role in their fraudulent acts. This is supported by the mean value of 2.90.

Table 8. The Result of Descriptive Statistics Test – Fraud diamond (Capability- X_4)

Indicator	SS (5)	S (4)	N (3)	TS (2)	STS (1)	Respondents
C16	9	62	26	2	1	100
C17	7	44	42	5	2	100
C18	15	61	21	3	-	100
C19	9	62	26	2	1	100
C20	9	62	26	2	1	100
TOTAL	49	291	141	14	3	
Mean	0.40	2.91	1.41	0.14	0.4	

Source: Research Data Tabulation, 2019.

Table 8 indicates that most respondents were inclined to believe that Fraud diamond (Capability-X4) plays a very important role in their commitment of fraud. This is proven through the mean value of 2.91

Table 9. The Result of Descriptive Statistics Test – Religiosity (Z)

Indikator	SS (5)	S (4)	N (3)	TS (2)	STS (1)	Respondents
R21	9	62	26	2	1	100
R22	7	44	42	5	2	100
TOTAL	16	106	68	7	3	
Rata-Rata	0.16	1.06	0.68	0.7	0.3	

Source: Research Data Tabulation, 2019.

Respondents' tendency, according to Table 9, was Religiosity (Z) is highly influential to quench their drives to committing fraud. However, the mean value is very low, scoring at 1.06. Thus, it can be concluded that Religiosity (Z) is not a major factor in suppressing fraud.

Table 10. The Result of Descriptive Statistics Test – Fraud (Y)

Indicator	SS (5)	S (4)	N (3)	TS (2)	STS (1)	Respondents
F23	5	42	40	13	-	100
F24	9	54	30	7	-	100
F25	9	47	39	5	-	100
TOTAL	23	143	109	25		
Mean	0.23	1.43	1.09	0.25	0	

Source: Research Data Tabulation, 2019.

Table 10 shows that Fraud (Y) still occurs recently although only in a small number. This was implied by the mean of *Fraud* (Y) which scores 1.43.

Path analysis models used in this research were:

$$a) \quad Y = \beta_0 + \beta_1 X_1 + \beta_1 X_2 + \beta_1 X_3 + \beta_1 X_4 + \varepsilon$$

$$b) \quad Y = \beta_0 + \beta_1 X_1 + \beta_1 X_2 + \beta_1 X_3 + \beta_1 X_4 + Z + \varepsilon$$

Result of equation test 1:

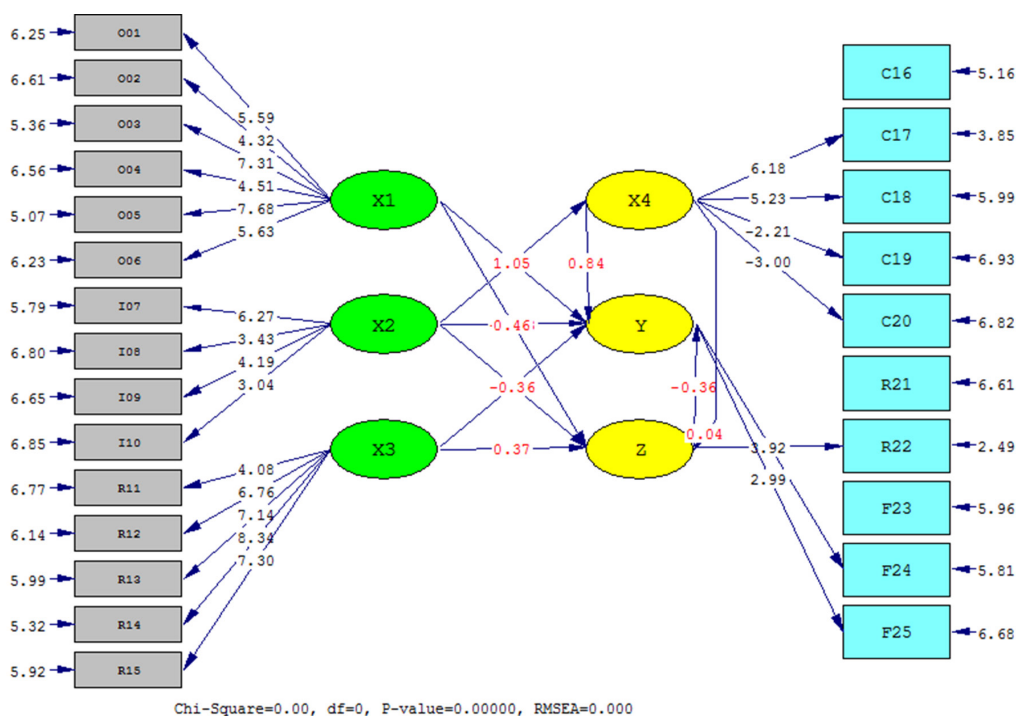
Table 11. Result of equation test 1

No.	Variable	T Value	Conclusion
1.	X1→Y	7.11	Significant
2.	X2→Y	1.65	Insignificant
3.	X3→Y	3.83	Significant
4.	X4→Y	2.51	Significant

Source: Processed Data, 2019.

The results presented by the previous table allow these hypothesis testing. First, Test of the influence of the Diamond Fraud (Opportunity) on fraud resulted in a T-value of 7.11. Because the T-value is higher than 1.96 ($7.11 > 1.96$), it can be concluded that the Fraud diamond (Opportunity) factor is to have been proven to have a significant effect on fraud committed by managers of manufacturing companies in East Java.

Figure 8. Result of Test of Model 2



Second, the test obtained a T-value of 1.65. Because the T-value is smaller than 1.96 ($1.65 < 1.96$), it can be stated that the Fraud diamond (Incentive) factor is proven to have no significant effect on fraud committed by managers of manufacturing companies in East Java. Third, t-value obtained from the test was 3.83. As the T-value is higher than 1.96 ($3.83 > 1.96$), the conclusion is the Fraud diamond (Rationalization) factor is proven to have a significant effect on fraud committed by managers of manufacturing companies in East Java. Fourth, the test produced a T-value of 2.51. With a T-value having a higher value than 1.96 ($2.51 > 1.96$), it proves that Fraud diamond (Capability) factor has a significant effect on fraud committed by managers of manufacturing companies in East Java.

Criterion of conclusion (Sujarweni, 2018) was:

T-Value > 1.96= Significant

T-Value < 1.96= Insignificant

The test of the influence of Religiosity in intervening the relationship between Fraud diamond (opportunity, incentive, rationalization, and capability) toward fraud produced a T-value of -0.36. Therefore the T-value is smaller than 1.96 ($-0.36 < 1.96$). Thus it can be inferred that religiosity is incapable to strongly intervene the relationship between fraud diamond (opportunity, incentive, rationalization, and capability) toward fraud committed by

managers of manufacturing companies in East Java. These results proved that the level of religiosity of a manager is incapable to suppress fraudulent acts committed in the company. Thus, company owners still require to control and supervise all company activities, including observing performance reports.

No.	Variable	T Value	Conclusion
1.	X1→Z	0.46	Insignificant
2.	X2→Z	-0.36	Insignificant
3.	X3→Z	0.37	Insignificant
4.	X4→Z	0.04	Insignificant
5.	X1+X2+X3+X4→Z→Y	-0.36	Insignificant

Source: Result of Data Processing, 2019.

CONCLUSION

Fraud diamond factors (opportunity, rationalization, and capability) are proven to be significantly influential toward fraud committed by managers of manufacturing companies in East Java. Fraud diamond (incentive) factor is proven not to be significantly influential toward fraud committed by managers of manufacturing companies in East Java.

Religiosity is not able to strongly intervene the influence of fraud diamond (opportunity, incentive, rationalization, and capability) toward fraud committed by managers of manufacturing companies in East Java. The novelty of this article conforms the research object which focused on the managers of manufacturing companies in East Java. This ensured the high validity and reliability of the data obtained from the respondents, because it directly aimed the targets. Previous researches, on the other hand, only present general discussions. Moreover, Indonesia is a country with high levels of cultures and religiosity. Thus the outcomes of this research contribute to the academic and practical accounting worlds.

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