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Financial Stability, Industrial Conditions and External Pressure on Financial Statement Fraud in Manufacturing Companies

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Abstract

This study to examine financial stability, industrial conditions and external pressures and their effects on financial reports. Financial stability was tested using ACHANGE, industrial conditions were tested using RECEIVABLE, external pressure was tested using Debt to Asset (DTA), and fraudlent financial statments were test using EDAIT. This study uses secondary data quantitative methods. The population in this study are manufacturing companies listed on the IDX. The analysis technique used is multiple regression analysis which shows that financial stability and industrial conditions have a negative effect on financial statement fraud, while external pressure has a positive effect on financial statement fraud

Keywords: *Financial Statement Fraud, Financial Stability, Industrial Conditions, External Pressure*

Abstrak

Penelitian ini bertujuan untuk menguji stabilitas keuangan, kondisi industri dan tekanan eksternal serta pengaruhnya terhadap laporan keuangan. Stabilitas keuangan diuji mengguakan ACHANGE, kondisi industri diuji menggunakan RECEIVABLE, tekanan eksternal diuji menggunakan Debt To Asset (DTA), serta EDAit digunakan untuk menguji kecurangan laporan keuangan. Penelitian ini menggunakan data sekunder dengan menggunakan metode kuantitatif. Populasi dalam penelitian ini adalah perusahaan manufaktur yang terdaftar di BEI periode 2019-2020. Teknik analisis yang digunakan yaitu analisis regresi berganda yang menunjukkan bahwa stabilitas keuangan dan kondisi industri berpengaruh negatif terhadap kecurangan laporan keuangan, sedangkan tekanan eksternal berpengaruh positif terhadap kecurangan laporan keuangan.

Kata kunci: Kecurangan Laporan Keuangan, Stabilitas Keuangan, Kondisi Industri, Tekanan Eksternal

1. Introduction

Financial reports are a form of responsibility of each company to users of financial statements, including companies listed on the Indonesia Stock Exchange (IDX) must publish their financial reports to the public (Wicaksono & Chariri, 2015). Financial statements are all records or data records of financial activities, business positions, or entities to explain the overall performance of the company. Financial information must be relevant/reasonable and presented in a structured way that is easy to understand. Financial reports aim to provide information about the financial position, use of the budget, cash flow, and financial performance of a reporting entity. Presentation of financial statements must contain explanations that are useful for users of accounting information in assessing accountability in decision making (Kurniawan et al., 2020). Because the company wants to get a good impression and maintain its position in the competition, the company presents financial reports that are wrong or not in accordance with the actual situation (Nuraina & Pangesty, 2017) therefore the practice of manipulating financial statements is driven so that it always gives a good impression.

Deliberate actions taken to obtain material and non-material profits are called fraud or cheating. According to the Association of Certified Fraud Examiners (1998) in (Dwijayani et al., 2019) *Fraud is an act of making a mistake by an individual or entity who knows that the effect of the mistake that has been made will result in the individual, the company, and also other parties losing money. This act was carried out by the company so that users of financial statements were lost, using material value engineering based on financial reports.*

Worldwide fraud incidents, including the cases of Enron Health South Corporation, Tyco, Worldcom, Bank of Credit and Commerce International, became the center of attention for citizens of all the world people where the problem of fraudulent financial statements at Toshiba Corporation was revealed with evidence that over the last 5 years it had inflated 1.22 billion USD. The resignation of the CEO of Toshiba was due to the above fraud case (Sulastri, 2019).

Cases of profit manipulation or fraudulent financial statements in Indonesia which were reported according to Okezone, (28/6/2019) are problems with Garuda Indonesia. The chaotic financial reports started on April 24 2019, it all started in the 2018 financial year from the results of Garuda Indonesia's financial reports. In the financial report, the Garuda Indonesia company posted a net profit of USD 809.85 thousand or Rp. 11.33 billion (estimated exchange rate of Rp. 14,000 per US dollar), this figure has soared higher compared to 2017 which had a loss of USD 216.5 million.

The factors that lead to fraud are claimed using the Fraud Triangle. This fraud triangle begins with the occurrence of two unequal interests, namely the owners and producers of financial statements in achieving their goals. This is known as agency theory. The owner wants big profits in the company, but the manager aims to receive more bonuses according to the company. This condition causes various ways to be carried out, including illegal actions. The method used to achieve this goal is based on three perspectives, namely pressure, opportunity, and rationalization (Andriani, 2019).

Researchers must describe the proxies and variables of the components of the fraud triangle to measure because these components cannot be examined directly, so the variables used are financial stability, company conditions, and external pressures. This research aims to a. Testing financial stability to whether it has the influence to detect fraudulent financial statements, testing whether industry conditions have an influence on detecting fraudulent financial statements and testing whether external pressure has an influence on detecting fraudulent financial statements.

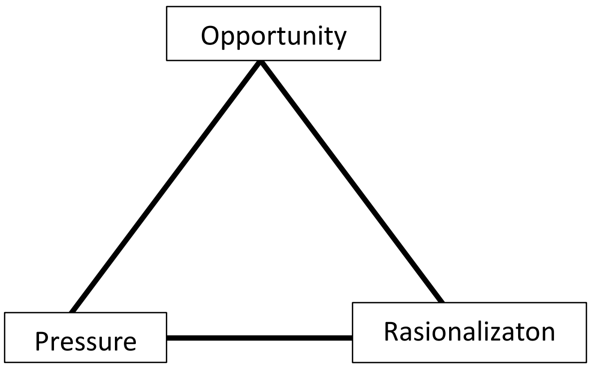
2. Literature Review

Fraud Triangel Theory

The Fraud Triangle theory is the theory that underlies this research because the Fraud triangle theory is a theory that can be used to detect fraud in financial statements. Fraud is defined as a general term designed by human intelligence, through one individual, being able to gain profit from another person according to a misrepresentation. There are no definite and uniform rules that serve as the basis for defining fraud because fraud includes surprise, deception, cunning, and alternative ways in which other parties are cheated. (Ijudien, 2018). Accoording to Sulastri (2019) cheating or fraud, namely the act of receiving unfair profit from other people or other groups. According to the rules, it can be said that fraud is in the presence of a false statement or disclosure, a material truth that can make someone act, the intention is to commit fraud.

Fraud is an ordinary action and includes many ways and meanings in the form of a clever way of someone who pretends to receive profits using a misrepresentation. Financial statement fraud is an intentional act that forms a material misstatement of financial statements. Meanwhile, Sihombing and Rahardjo stated that fraudulent financial statements were imbalances or carelessness in financial reports that were presented using general accounting principles. This negligence or gap is material in nature so that it can affect the decision that will be taken for the party concerned (Andriani, 2019). Usually, fraudulent financial statement steps are carried out by falsifying the numbers on the report or using misuse as well as misinterpretation which is done intentionally based on applicable accounting standards.

There are three components that result in fraud, all three of which can be claimed using the fraud triangle, namely pressure, opportunity, and rationalization.



Lifestyle, and economic demands are a form of pressure that underlies someone to commit fraud if they feel pressure. Not infrequently the pressure comes because of the pressure of financial needs. In general, one of the pressures that cause fraud is financial stability.(Rachmania, 2017).

Fraud will run smoothly if the perpetrator has the opportunity or opportunity to do so. This opportunity is used when the risk of fraud being detected is small (Sulastri, 2019). Opportunities are achieved because of internal controls, ineffective management controls, or abuse of position or authority. Failure to establish proper procedures to detect fraudulent activity also increases the opportunities for fraud to occur (Rachmania, 2017).

The third condition is that this rationalization is the most difficult component to measure because it is difficult to guess what is in the minds of the perpetrators of fraud. Someone with low integrity can build thoughts that make the person not feel guilty when they have done the wrong thing. According to Hooper & Pornelli, individuals who commit fraud have a mindset that is able to organize or build reasons that their bad actions are reasonable and right. For perpetrators who have higher moral standards, they feel that fraudulent actions will be difficult to commit, on the other hand, if individuals do not have high moral standards, they will always be able to find rational justification to say that what they are doing is normal.

Financial stability is an image of whether or not the financial condition of a company is stable. Management will try to make the company's financial condition look good using various ways and strategies. This creates a certain pressure for each management, especially when facing a situation where the company's financial requirements are being threatened as a result of which management is compelled to commit fraud in its reports. It can be said that financial stability is a requirement that the management wants to achieve in order to make the company look good and be able to compete with other companies, so as a result, it makes shareholders feel safe and have confidence in management's performance.

Industry pressure is a residue of one condition according to opportunity which requires supervision according to the organizational structure. if the supervision is weak, the agent or manager can exploit it to commit fraud in financial statements. According to Ijudien (2018) Industry requirements are ideally a company, where there needs to be more supervision for the company so that the possibility of fraud can be avoided. Opportunities for fraud occur in transactions in accounts that are based on subjective estimates that support the results presented.

External pressure or external pressure is excessive pressure for management to meet third-party requirements. This pressure can be overcome through additional money or external sources of financing to stay competitive. If the company has high leverage, it can also be said that the company has a large debt and large credit risk. The higher the credit risk, the greater the level of concern for creditors for placing loans to the company. This is what causes fraud in financial reporting. Financially unstable companies tend to try to manipulate financial statements to increase the company's prospects.

Hypothesis Formulation

The Fraud Triangle theory is the theory that underlies this research because the Fraud triangle theory is a theory that can be used to detect fraud in financial statements. Fraud is defined as a general term designed by human intelligence, through one individual, being able to gain profit from another person according to a misrepresentation. There are no definite and uniform rules that serve as the basis for defining fraud because fraud includes surprise, deception, cunning, and alternative ways in which other parties are cheated. (Ijudien, 2018).

H1: Financial stability has a positive effect on the occurrence of fraudulent financial statements

The Fraud Triangle theory is the theory that underlies this research because the Fraud triangle theory is a theory that can be used to detect fraud in financial statements. Fraud is defined as a general term designed by human intelligence, through one individual, being able to gain profit from another person according to a misrepresentation. There are no definite and uniform rules that serve as the basis for defining fraud because fraud includes surprise, deception, cunning, and alternative ways in which other parties are cheated. (Ijudien, 2018). Menurut kerangka teori tersebut, financial stability dapat berpengaruh terhadap the accurence of fraudulent financial statement.

H2: Industry conditions have a positive effect on the occurrence of fraudulent financial statements

Industrial codition dapat berpengerauh positive terhadap the occurrence of fraudulent financial statements. Hal tersebut sesuai dengan konsep bahwa The Fraud Triangle theory is the theory that underlies this research because the Fraud triangle theory is a theory that can be used to detect fraud in financial statements. Fraud is defined as a general term designed by human intelligence, through one individual, being able to gain profit from another person according to a misrepresentation. There are no definite and uniform rules that serve as the basis for defining fraud because fraud includes surprise, deception, cunning, and alternative ways in which other parties are cheated. (Ijudien, 2018).

H3: External pressure has a positive effect on the occurrence of fraudulent financial statements

3. Research Method

The population in this study is a manufacturing company listed on the Indonesia Stock Exchange. Methods of data collection in this study using the method of documentation and literature study. This study uses a quantitative approach using secondary data.

Variabel Dependen

Financial Statement Fraud

The dependent variable in this study is financial statement fraud. According to the Association of Certified Fraud Examiners (ACFE) financial statement, fraud is where management commits fraud in the form of material misstatement of financial statements that can be detrmental to investors and creditors. (Vidella & Afiah, 2020). Financial statement fraud in this study was measured using the De Angelo model with the formula:

$$\text{TAC} = \textit{Net Income} - \textit{Cash Flows From Operation}$$

EDA_{it} = *Estimated Discretionary Accrual For The Period*

TA_{it} = *Total Accruals For The Current Period*

TA_{it-1} = *Total Accruals For The Prior Period*

A_{it-1} = *Total Assets For The Prior Period*

Variabel Independen

Financial Stability

According to SAS No. 99, financial stability is a picture of a company's stable financial condition. The stability of the company's financial condition can be seen from the condition of its assets. Financial stability is measured by the ratio of changes in assets (ACHANGE)

$$\textit{ACHANGE} = (\text{Total Asset (t) - Total Asset (t - 1)) / Total Asset (t-1)})$$

Industrial conditions

Industrial conditions are an ideal company condition, where optimal supervision is required for the company so that opportunities for fraud can be avoided, this industrial condition is measured using the formula:

$$\text{Receivable} = \frac{Piutangt}{Penjualant} - \frac{Piutangt-1}{Penjualant-1}$$

External pressure

External pressure is the pressure that comes from organizations such as regulations issued by the government, these regulations are intended to regulate existing practices to be better. External pressure is proxied by the ratio:

$$\textit{Debt To Asset} = \frac{Total\ Debt}{Total\ Asset}$$

4. Results and Discussion

4.1. Result

In this section several things related to the research results are presented. Some of the things referred to include descriptive statistical output, classical assumption test output and hypothesis testing using regression testing tools. The following is an explanation of the things above in more detail.

Table 1. Descriptive Statistics

Item	N	Minimum	Maximum	Mean	Std. Deviation
Financial Statement Fraud	30	-,38	,08	-,0512	,09936
Industrial Condition	30	-,22	,61	,0103	,12809
External pressure	30	,12	5,17	,6035	,88878
Valid N (listwise)	30				

Table 2. Multikolinearitas test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-,056	,019		-2,984	,006		
	Financial Stability	,172	,085	,337	2,019	,054	,890	1,124
	Industrial Condition	-,311	,130	-,401	-2,396	,024	,881	1,135
	External pressure	,008	,018	,072	,457	,652	,982	1,018

a. Dependent Variable: Kecurangan Laporan Keuangan

Sourcer: Output SPSS 20.0

Based on the multicollinearity test, the results show that the tolerance value for the financial stability variable is 0.890 which is greater than 0.10 and the VIF value is 1.124 which is less than 10. For the industrial condition variable, it has a tolerance value of 0.881 which is greater than 0.10 and the VIF value is 1.135, which is less than 10. Meanwhile, the external pressure variable has a tolerance value of 0.982, which is greater than 0.10 and a VIF value of 1.018, which is less than 10. Based on the results of the tolerance value and VIF, it can be concluded that the regression model does not there is multicollinearity between independent variables and can be used to detect fraudulent financial statements during the 2019-2020 period.

Table 3. Coefisien Determination (R^2)

Model	R	R Square	Adjusted R Square
1	,598[a]	,357	,283

a. Predictors: (Constant), Tekanan Eksternal, Stabilitas Keuangan, Kondisi Industri.
b. Dependent Variable: Kecurangan Laporan Keuangan

Source: Output SPSS 20.0

Determination analysis is used to calculate the percentage influence of independent variables simultaneously on the dependent variable. The point value of the coefficient of determination is between 0 and. if the value of the coefficient of determination is close to 1 or greater, it will show a strong independent variable on the dependent variable and this model is said to be feasible. and vice versa if the value of the coefficient of determination is close to 0 or smaller indicating that the independent variable is getting weaker against the dependent variable then this model is said to be less feasible.

Adjusted R2 has a value of 0.283 or 28.3%. So it can be concluded that the independent variables used in this study can mention the dependent variable, namely financial statement fraud, which is as much as 28.3%, and the remaining 71.7% which is explained by other variables not used in this study.

Table 4. F test

Model		F	Sig.
1	Regression	4,817	,008[b]
	Residual		
	Total		

a. Dependent Variable: Financial Statement Freud

b. Predictors: (Constant), External Pressure, Financial Stability, Industrial Condition

Sumber: Output SPSS 20.0

The f statistical test is used to understand whether the model used in the linear regression f test is also used to determine the effect of all the independent variables on the dependent variable tested at a significantly lower level than 0.05 (5%). The criteria for testing the f test are if the P-value = 0.05 indicates that this model is adequate for use in research, conversely, if the P-value is greater than 0.05 then the test model is not suitable for use in research

Based on the results of the F test above, a calculated value of 4.187 and table F (3:27) can be obtained, namely 2.30, meaning that F count > F table (4.187 > 2.30) and has a significant value that is smaller than 0.05, namely 0.008 (0.008 < 0.05). Which means all the independent variables significantly affect the dependent variable.

Tablel 5. T test

Model		**t**	**Sig.**
1	(Constant)	-2,984	,006
	Financial stability	2,019	,054
	Industrial Condition	-2,396	,024
	External pressure	,457	,652

a. Dependent Variable: Kecurangan Laporan Keuangan

Source: Output SPSS 20.0

The t-test is used to determine the impact of each independent variable on the dependent variable in a related way. Decision-making based on the equality of calculated values and critical values according to the significant level used is 0.05 point of decision-making based on the probability value obtained from the results of data processing.

Financial Stability as measured by the change ratio or ACHANGE produces a t-value of 2.019 and a t-table of 2.055. t count < t table (2.019 < 2.055) with a significance value of

0.054 > 0.05, which means that financial stability has a negative and significant effect on fraudulent financial reporting. If the company's financial stability is getting better, the lower the possibility of fraudulent financial statements and vice versa.

Industrial conditions measured using RECEIVABLE produce a t count of -2.396 and a t table of -2.055. t count < t table (-2.396 <-2.055) with a significance value of 0.024 <0.05, which means that industrial conditions have no effect on fraudulent financial statements, which means that industrial conditions cannot be used to predict fraudulent financial statements

External pressure as measured using the Debt To Asset (DTA) ratio produces a t count of 0.457 and a t table of 2.055. t count <t table (0.457 <2.055) with a significance value of 0.652 > 0.05, which means that external pressure has a negative and significant effect on fraudulent financial reporting. This means that external pressure can be used to predict fraudulent financial statements.

4.2. Discussion

The Effect of Financial Stability, Industrial Conditions, and External Pressure Simultaneously on Fraudulent Financial Statements

Based on the results of the F test above, a calculated value of 4.187 and table F (3:27) can be obtained, namely 2.30, meaning that F count > F table (4.187 > 2.30) and has a significant value that is smaller than 0.05, namely 0.008 (0.008 < 0.05). Which means all the independent variables significantly affect the dependent variable.

Partial Effect of Financial Stability on Fraudulent Financial Statements (X1)

Hypothesis 1 states that financial stability has a significant effect on fraudulent financial reporting. Financial Stability as measured by the change ratio or ACHANGE produces a t-value of 2.019 and a t-table of 2.055. t count < t table (2.019 < 2.055) with a significance value of 0.054 > 0.05, which means that financial stability has a negative and significant effect on fraudulent financial reporting. If the company's financial stability is getting better, the lower the possibility of fraudulent financial statements and vice versa.

Partial Influence of Industrial Conditions on Financial Statement Fraud

Hypothesis 2 states that industry conditions have a significant effect on fraudulent financial statements. Industrial conditions measured using RECEIVABLE produce a t count of -2.396 and a t table of -2.055. t count < t table (-2.396 <-2.055) with a significance value of 0.024 <0.05, which means that industrial conditions have no effect on fraudulent financial statements, which means that industrial conditions cannot be used to predict fraudulent financial statements

The partial influence of external pressure on financial statement fraud

Hypothesis 3 states that external pressure has a significant effect on financial statement fraud. External pressure measured using the Debt to Asset (DTA) ratio produces a calculated t value of 0.457 and a t table of 2.055. t count < t table (0.457 < 2.055) with a significance value of 0.652 > 0.05, which means that external pressure has a negative and significant effect on financial statement fraud. This means that external pressure can be used to predict fraudulent financial statements.

5. Conclusion

Based on the results of research conducted regarding the influence of financial stability, industrial conditions and external pressure on fraudulent financial reports in manufacturing companies listed on the IDX in 2019-2020, the following conclusions can be drawn:

a. Financial stability in manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2020 period in this research can be concluded to have a negative and significant effect on financial report fraud
b. Industrial conditions in manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2020 period have no effect on fraudulent financial statements
c. External pressure on manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2020 period has a positive and significant effect on fraudulent financial reports.
d. Simultaneously, the variables of financial stability, industry conditions and external pressures influence financial statement fraud.

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