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THE EFFECT OF POLITICAL CONNECTIONS AND NATURE OF INDUSTRY ON FRAUDULENT FINANCIAL REPORTING

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Abstract: *This research aims to obtain empirical evidence regarding the influence of financial targets, financial stability, external pressure, ineffective monitoring, nature of the industry, external auditor quality, board of directors' turnover, auditor turnover, frequent number of CEO's picture, and political connections on fraudulent financial reporting. The object of this research is manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2023 period, using a purposive sampling method, resulting in 197 data points. The data were analyzed using multiple linear regression with SPSS software. The results of the research show that financial targets, financial stability, and board of directors' turnover have a positive influence on fraudulent financial reporting. Meanwhile, the nature of the industry has a negative influence on fraudulent financial reporting. External pressure, ineffective monitoring, external auditor quality, auditor turnover, frequent number of CEO's picture, and political connections do not significantly influence fraudulent financial reporting.*

Keywords: *Arroogance, External Pressure, Fraudulent Financial Reporting, F-Score, Pentagon Fraud Theory*

Abstrak: Penelitian ini bertujuan mendapatkan bukti empiris mengenai pengaruh financial target, financial stability, tekanan eksternal, ineffective monitoring, nature of industry, kualitas auditor eksternal, pergantian direksi, pergantian auditor, frequent number of CEO's picture, dan koneksi politik terhadap fraudulent financial reporting. Objek yang digunakan dalam penelitian ini adalah perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) selama periode tahun 2021-2023 dengan menggunakan metode purposive sampling dan menghasilkan 197 data. Data dianalisis dengan regresi linear berganda pada aplikasi SPSS. Hasil penelitian ini menunjukkan bahwa financial target, financial stability, dan pergantian direksi berpengaruh positif terhadap fraudulent financial reporting. Nature of industry berpengaruh negatif terhadap fraudulent financial reporting. Sedangkan, tekanan eksternal, ineffective monitoring, kualitas auditor eksternal, pergantian auditor, frequent number of CEO's picture, dan koneksi politik tidak berpengaruh terhadap fraudulent financial reporting.

Kata kunci: *Arroogance, External Pressure, Fraudulent Financial Reporting, F-Score, Pentagon Fraud Theory*

INTRODUCTION

Regarding those who utilize the financial statements, financial statements are deemed good if the information is clear, comparable, pertinent, and trustworthy (Hanifa and Laksito 2015). Information from financial reports is required by managers, company owners, creditors, investors, suppliers, and customers

(Bawekes et al. 2018). External parties such as investors certainly have limited information regarding the company's internal conditions, so they use financial reports as a guide when evaluating the company. Financial reports for internal parties such as managers are used as a reference in conducting evaluations related to company performance, which will later be accompanied by making company plans in the future (Handoko and Natasya 2019).

Managers must create financial reports correctly and accurately so the information that is later provided is reliable (Yanti and Munari 2021). However, in practice, a lot of companies continue to manipulate their financial reports in order to perpetrate fraud. As a result of the misleading information presented, users of financial reports are automatically misled. This act obviously breaches the law and is part of fraud (Naldo and Widuri 2023).

Fraud can be committed for a variety of reasons. One of them is due to the fiercer competition among businesses. To hide the true state of the business, managers are prone to disclosing financial information fraudulently. Reporting the real financial performance to those who utilize financial reports is the responsibility of managers, who are involved in the creation (Agustina and Pratomo 2019).

The public has once again been made aware of the recent cases in Indonesia related to fraudulent financial reporting. This case took place in PT Indofarma, where there had been long-standing fraud claims. The President Commissioner of PT Indofarma demonstrated this by resigning in writing on January 9, 2024 (Bloomberg Technoz 2024).

The contents of the letter include that he suspected that in 2021, PT Indofarma committed fraud. This suspicion was strengthened by the net sales value of PT Indofarma in 2021 increasing by 69.51%, where the total net sales reached IDR 2.9 trillion, while in 2020 it only reached IDR 1.71 trillion. However, there was still no further action to answer the suspicion (Bloomberg Technoz 2024).

Indofarma and its subsidiaries were ultimately determined to have engaged in a number of activities that were prohibited by the Audit Board of Indonesia (BPK). These activities were in the form of fictitious sales transactions in the fast-moving consumer goods business unit, using tax restitution funds for interests outside the company, making deposits at the Nusantara Savings and Loans Cooperative in personal names, pawning deposit funds at Bank Oke for other interests, and using company credit cards (Liputan 6 2024).

Based on the link between cases of fraudulent financial reporting and the existence of the fraud pentagon theory, it is interesting to conduct research related to this matter. This research will be conducted to prove whether the fraud pentagon theory indeed has an influence on fraudulent financial reporting.

This research is a replication of Arfianto and Alexander (2023). The research independent variables are pressure components (financial targets), (external pressure), opportunity components (ineffective monitoring), (nature of industry), capability components (change in director), rationalization components (change in auditor), and arrogance components (political connections). This research also includes financial stability variables for the pressure component, quality of external auditor variables for the opportunity component, and frequent number of CEO picture variables for the arrogance component, which are based on Fathmaningrum and Anggarani (2021) research.

In addition to developing the research variables from previous studies, development is also applied to the research period used. Previous research was conducted for the period 2019-2021. This research conducts a research for the period 2021-2023 with the subject of manufacturing companies listed on the Indonesia Stock Exchange (IDX).

Agency Theory

An agreement involving a number of principals such as shareholders and bankers

with an agent (company manager) is known as an agency relationship. (Jensen and Meckling 1976). This relationship develops when the principal assigns responsibilities to the agent in order for the agent to exercise decision-making authority over difficulties that arise in the principal's commercial activity. However, these two parties have opposing interests.

This conflict of interest begins with the principal wanting all of the information about the business operations activities of the company in which they are investing, whereas management, as agents who act as actors in the company's operational activities, obviously has all of this information. The agent wishes to receive a big payment for their performance. The principal's purpose is to maximize the return on their investment in the company. (Yanti and Munari 2020). This difference in interests can lead to fraud in the preparation of financial reports (fraudulent financial statements) because agents want to enrich themselves, thus they will commit fraud, which would obviously harm the principal.

Fraud Theory

Fraud is described as an intentional act to benefit oneself or a specific person in an unlawful way, including perpetrating fraud. Management fraud occurs when financial statements are misrepresented with the goal of the management. This is done to ensure that they gain from the fraud, whether through promotions, bonuses, or as a symbol of their prestige (Singleton and Singleton 2010; Ijudien 2018).

Someone may commit fraud because they are under financial strain. For example, having debts and being caught in a lavish lifestyle that unable to maintain. However, in order to commit fraud, a circumstance must exist that allows the fraud to be done.

This indicates that there must exist an opportunity or chance for fraud to occur. Rationalization occurs when the perpetrator does not feel sorry about his acts. They believe that committing fraud is appropriate for certain purposes. These three components are frequently referred to as the fraud triangle theory (Puspasari 2015 and Ruankaew 2016).

Fraud Pentagon Theory

Wolfe and Hermanson (2004) Adding capability elements has resulted in the fraud diamond theory. Capability is described as a person's ability to conduct deception so that his position can be leveraged for personal advantage. Then this theory developed into the pentagon fraud theory because of the addition of arrogant elements from Horwath (2012). Senior managers and company executives can have a superior mindset by presuming that if they conduct fraud, it would go undetected (Novita 2019).

Fraudulent Financial Reporting

Fraudulent financial reporting is the practice of managers falsifying financial reports to benefit themselves, their organization, or another party. (Fathmaningrum and Anggarani 2021). Ramdany et al. (2021) stated that fraud in financial reports can occur in the following ways: (1) manipulating, falsifying, or changing accounting records and accounting documents; (2) disregarding and misreporting transactions or other essential data; and (3) employing improper accounting concepts.

Financial Target and Fraudulent Financial Reporting

Companies might use financial targets as a baseline for awarding bonuses or wage increases (remuneration) to employees (Agusputri and Sofie 2018). With the presence of financial targets, managers will do their best to accomplish their jobs so that the company can meet its financial targets, and the managers will receive the bonuses that were previously promised.

However, the company's financial performance, which has worsened or does not reach the financial targets previously set by the

board of directors, will undoubtedly place pressure on the managers (Agusputri and Sofie 2018). Pressure is one of the elements that can drive an individual or organization to commit fraud (Arfianto and Alexander 2023). This pressure encourages managers to engage in fraudulent financial reporting as a shortcut (Fathmaningrum and Anggarani 2021).

H_1: Financial target has an effect on fraudulent financial reporting.

Financial Stability and Fraudulent Financial Reporting

The company's constantly declining performance can be interpreted as a decrease in its overall assets. This motivates management to increase the company's overall assets again. However, if this motivation is not met, it will put extra pressure on managers to engage in fraudulent financial reporting, which causes financial statements to show a very large increase in assets, so that investors do not know the true financial condition of the company. (Apriliana and Agustina 2017).

The possibility of fraud in financial statements will continue to increase along with the desired level of financial stability of a company. As a result, many managers try to alter financial reports so that the company's prospects appear good to investors, even if the company's financial situation and profitability are actually falling (Fathmaningrum and Anggarani 2021).

H_2: Financial stability has an effect on fraudulent financial reporting.

External Pressure and Fraudulent Financial Reporting

The company may require additional financing when carrying out its operating tasks. Making a new bank loan is one of the quickest actions that may be accomplished. If the corporation is unable to repay the debt, pressure will build (Biduri and Tjahjadi 2024).

The possibility of fraudulent financial reporting will undoubtedly increase if the debt value in the financial statements is significant (Fathmaningrum Anggarani 2021). The entire value of loans or debts that are excessive in comparison to the total capital owned by the company can put significant pressure on management who prepare financial reports. The absence of business capital will undoubtedly make it difficult for the corporation to pay off its debts. The resulting pressure may induce managers to engage in fraudulent financial reporting.

H_3: External pressure has an effect on fraudulent financial reporting.

Ineffective Monitoring and Fraudulent Financial Reporting

Managers believe they are not being closely monitored if the supervision they receive is weak or inefficient. This makes it easier for them to pursue personal gain for their own benefit (Agusputri and Sofie 2019). A company's lack of monitoring can make it easier for managers to commit fraudulent financial reporting (Ramdany et al. 2021).

The more independent commissioners a firm has, the less the risk of misleading financial reporting. Increasing the number of independent commissioners will improve oversight. Supervision with a large number of members will make the supervision stricter because other parties will not intervene (Achmad and Pamungkas 2018).

H_4: Ineffective monitoring has an effect on fraudulent financial reporting.

Nature of Industry and Fraudulent Financial Reporting

The nature of the industry can present a chance for companies to engage in fraudulent financial reporting. This might happen when industry laws compel businesses to offer subjective reasoning for estimating certain accounts, such as receivables and inventory. Managers will undoubtedly seek to make the asset values in financial statements appear excellent, one method being fraudulent financial

reporting. The manager does not want to demonstrate their failure to handle the company's assets (Indriani and Rohman 2022; Hidayah and Saptarini 2019).

H_5: Nature of industry has an effect on fraudulent financial reporting.

Quality of External Auditor and Fraudulent Financial Reporting

External auditors must be capable and experienced in auditing financial statements. The quality of external auditors can influence their capacity to detect fraudulent financial reporting since auditors from the Big Four accounting firms are assumed to be more adept of detecting dishonest financial reporting (Setiawati and Baningrum 2018).

Auditors who are members of the Big Four are also seen to be better able to avoid conflicts of interest within the organization, making them more independent in producing future audit results for the company. A qualified auditor will undoubtedly find it easier to uncover and report indicators of fraud in the financial accounts provided (Fathmaningrum and Anggarani 2021).

H_6: Quality of External Auditor has an effect on fraudulent financial reporting.

Change in Director and Fraudulent Financial Reporting

Wolfe and Hermanson (2004) contends that when there is a change in director, the new director must acclimate to the new corporate culture, which can be difficult, reducing the efficacy of their performance. Fraudulent acts will be taken to cover up the new directors' deficiencies. This is done to improve the company's performance under the new directors' leadership. They use their knowledge and financial experience to commit fraudulent financial reporting in order to optimize financial report results.

H_7: Change in director has an effect on fraudulent financial reporting.

Change in Auditor and Fraudulent Financial Reporting

Rationalization can lead to people justifying things that are incorrect. This justification can lead to someone who initially had no desire to commit fraud changing their mind and perpetrating the deception because they believe it is normal. If the auditor fails the audit multiple times, rationalization will occur (Hidayah and Saptarini 2019).

Changing auditors is one strategy to cover up their fraudulent financial reporting practices. This is done because they anticipate that the new auditor will have difficulties uncovering the existing fraud, despite the fact that the prior auditor is assumed to know everything about the fraud that has occurred (Arfianto and Alexander 2023).

H_8: Change in auditor has an effect on fraudulent financial reporting.

Frequent Number of CEO's Picture and Fraudulent Financial Reporting

Fraud can even affect someone who already holds a high position in the firm. This is because his high status makes him arrogant, and he obviously does not want to lose it in a short period of time. As a result, individuals can take a variety of activities to maintain their current rank and position, including bad ones like fraud (Septriani and Handayani 2018).

This arrogant attitude is also evident in the company's annual report, which contains numerous picture of the CEO. The more picture attached, the more the CEO wants to demonstrate to people his rank and position. He views himself to as the guy in charge of the company, thus no one can stop him, even if he manipulates the financial report (Agusputri and Sofie 2019).

H_9: Frequent number of CEO's picture has an effect on fraudulent financial reporting.

Political Connections and Fraudulent Financial Reporting

Leaders of companies often engage in

fraudulent financial reporting when the financial reports they make fail to generate the anticipated profit. This is done to preserve its reputation so that it will continue to appear positive to external parties like the public and investors (Arfianto and Alexander 2023). Companies with political connections may be able to carry out business operations more readily.

This is due to the fact that it will be simpler for them to evade punishment when they have political connection to the government. Falsifying financial records will be easier for them because they will have government advantages (Wu et al. 2012). Examples of penalties that can be reduced or even avoided include fines, public censure, administrative sanctions, and even the withdrawal of stock listings.

H_{10}: Political connections has an effect on fraudulent financial reporting.

RESEARCH METHOD

This research employs the purposive sampling method to gather data from manufacturing companies listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023. The research yields 197 data points. Data for the 2020 period is also required, though, as it is required a year prior to the research period. Annual reports are another source of data needed for this research. The criteria used to select the sample are presented in Table 1.

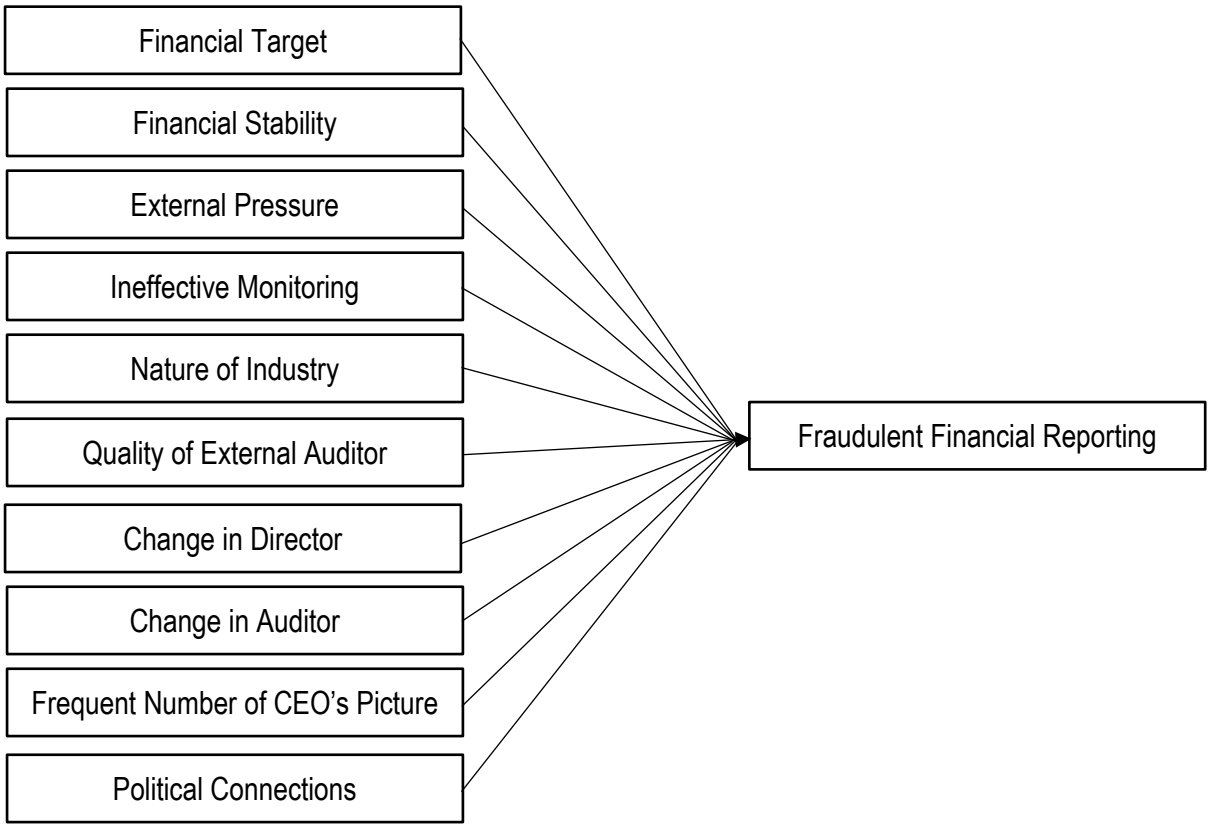

Figure 1. Research Model

Table 1. Sample Selection Procedure

	Criteria Description	Total Firms	Total Data
1.	Manufacturing companies consistently listed on the Indonesia Stock Exchange (IDX) during the 2020-2023 period.	164	492
2.	Manufacturing companies that do not use a reporting period ending December 31.	(13)	(39)
3.	Manufacturing companies whose annual report publications are not available on the Indonesia Stock Exchange.	(1)	(3)
4.	Manufacturing companies that do not use the rupiah as the reporting currency.	(29)	(87)
5.	Manufacturing companies that do not earn positive net income.	(55)	(165)
Number of Research Samples		66	198
Outlier Test			(1)
Number of Research Samples after outliers			**197**

Source: Results of Data Collection and Processing by Researchers

OPERATIONAL DEFINITION AND VARIABLE MEASUREMENT

Fraudulent financial reporting is a dishonest conduct committed against financial report users that causes losses for a number of parties (Devi et al. 2021). The following ratio scale is used in fraudulent financial reporting testing with the F-Scores model (Arfianto and Alexander 2023, Standard and Poor's 2002):

F-Scores=Accrual Quality+Financial Performances

Financial Performance = Change in Receivable +Change in Inventory+Change in Cash Sales +Change in Earnings

The proxy used to measure accrual quality is RSST accrual.

$$\text{RSST Accrual} = \frac{\Delta WC + \Delta NCO + \Delta FIN}{\text{Average Total Assets}}$$

Working Capital (WC) = (Current Assets – Cash-Short Term Investment) - (Current Liabilities - Short Term Debt)

Non-Current Operating Accrual (NCO) = (Total Assets - Current Assets – Equity) - (Total Liabilities - Current Liabilies - Long Term Debt)

Financial Accrual (FIN) = (Short Term Investment + Long Term Investment) - (Long Term Debt + Short Term Debt)

Average Total Assets:

$$\text{ATS} = \frac{(\text{Beginning Total Assets} + \text{End Total Assets})}{2}$$

Δ represents the difference between the current year and the previous year.

Change in Receivable:

$$\frac{\Delta \text{Receivables}}{\text{Average Total Assets}}$$

Change in Inventories:

$$\frac{\Delta \text{Inventories}}{\text{Average Total Assets}}$$

Change in Cash Sales:

$$\frac{\Delta \text{Sales}}{\text{Sales}_t} - \frac{\Delta \text{Receivables}}{\text{Receivables}_t}$$

Change in Earnings:

$$\frac{\text{Profit}_t}{\text{Average Total Assets}_t} - \frac{\text{Profit}_{t-1}}{\text{Average Total Asset}_{t-1}}$$

If the F-Score result < 1 indicates that the

company is not indicated with fraudulent financial reporting activities. If the F-Score result > 1 indicates that the company is indicated with fraudulent financial reporting activities. (Achmad et al. 2022).

Return on Asset (ROA) is a profitability ratio that companies use to measure the effectiveness of their company in activities to gain profits by using the assets they own. (Fathmaningrum and Anggarani 2021). Financial target measurement uses a ratio scale as follows:

$$ROA = \frac{\text{Earning After Tax}}{\text{Total Assets}}$$

A high percentage change in total assets indicates that the company has the power to generate income, thus making fraudulent financial reporting possible (Fathmaningrum and Anggarani 2021). The proxy used to measure financial stability is ACHANGE with a ratio scale which is the percentage change in total assets in a company. The measurement is as follows:

$$ACHANGE = \frac{\text{Total Assets}_{t} - \text{Total Assets}_{t-1}}{\text{Total Assets}_{t-1}}$$

External pressure is the pressure that companies experience to meet demands from third parties, such as seeking financing (Fathmaningrum and Anggarani 2021). Therefore, the measurement uses a ratio scale. Leverage (LEV) is the percentage of total debts to total assets. Companies that have high leverage can be said to have high credit risk. The measurement of LEV is as follows:

$$LEV = \frac{\text{Total Debts}}{\text{Total Assets}}$$

Too few boards of commissioners can also result in less effective monitoring, so that measurements for ineffective monitoring are carried out using a ratio scale of the number of independent boards of commissioners in the company (Arfianto and Alexander 2023).

$$BDOUT = \frac{\text{Total Number of Independent Commissioner Board}}{\text{Total of Number Commisoner}}$$

Research by Fathmaningrum and Anggarani (2021) to measure the nature of industry using a ratio scale with receivable measurements, as follows:

$$REC = \frac{\text{Receivables}_{t}}{\text{Sales}_{t}} - \frac{\text{Receivables}_{t-1}}{\text{Sales}_{t-1}}$$

Companies that use the services of auditors from Big Four KAP are considered to be more capable of producing higher quality audit findings compared to auditors from non-Big Four firms (Fathmaningrum and Anggarani 2021). Research by Nurchoirunanisa et al. (2020) to measure the quality of external auditors using a dummy variable symbolized “BIG”, using a nominal scale. The number 1 indicates companies that use audit services from Big Four KAP. The number 0 is for companies that do not use audit services from Big Four KAP.

Changes in director can give rise to fraudulent actions by the new directors because they have to overcome the problems caused by the previous directors (Devi et al. 2021). Research by Fathmaningrum and Anggarani (2021) to measure the change of directors with a dummy variable symbolized “DCHANG”, using a nominal scale. Number 1 if there is a change of directors during 2021 – 2023. Number 0 if there is no change of directors during 2021-2023.

Companies that commit fraud in their financial reports will usually cover up their actions by suddenly changing auditors (Devi et al. 2021). Based on research of Fathmaningrum and Anggarani (2021), This research uses a dummy variable with a nominal ratio and uses the symbol "CPA" as the meaning of change in auditor. The number 1 is given if there is a change of KAP during 2021-2023. The number 0 is given if there is no change of KAP during 2021-2023.

The more frequently the CEO's picture appears in a company's annual report, the higher the chance of the CEO's arrogance, so that the possibility of them committing fraud in the financial report increases (Fathmaningrum and Anggarani 2021). Based on research of Fathmaningrum and Anggarani (2021) to measure the frequent number of CEO's picture (CEOPIC), the ordinal scale is used, namely by counting the number of CEO picture displayed in the company's financial report.

Research by Matangkin (2018) using dummy variables with a nominal scale and given the code "POLCON" to measure political connections. The number 0 is given if the company's top brass has no political connections and will be given a value of 1 with the following conditions: (1) The president commissioner and/or independent commissioner holds concurrent positions as politicians affiliated with political parties. (2) The president commissioner and/or independent commissioner holds concurrent positions as government officials. (3) The president commissioner and/or independent commissioner holds concurrent positions as military officials. (4) The president commissioner and/or independent commissioner are former government officials or former military officials.

Table 2. Descriptive Statistics Results

Variable	N	Minimum	Maksimum	Mean	Std. Deviation
FFR	197	-0,9734	2,2445	0,105576	0,3389341
ROA	197	0,0013	0,3636	0,089770	0,0703143
ACHANGE	197	-0,1922	0,5075	0,068197	0,1034182
LEV	197	0,0000	0,5311	0,143078	0,1407017
BDOUT	197	0,2000	0,8333	0,431848	0,1162681
REC	197	-0,1523	0,1678	-0,003968	0,0393553
BIG	197	0	1	0,42	0,495
DCHANG	197	0	1	0,41	0,492
CPA	197	0	1	0,11	0,309
CEOPIC	197	1	13	3,16	2,058
POLCON	197	0	1	0,29	0,455

Source: Output Statistics

Table 3. Quality of External Auditor

		Frequency	Valid Percent	Cumulative Percent
0	The company does not use audit services from the Big Four KAP	114	57,9	57,9
1	The company uses audit services from the Big Four KAP	83	42,1	100,0
	Total	197	100,0	

Source: Output Statistics

RESULTS

Descriptive statistics are tests that aim to provide a description of the data under consideration in order to determine the average (mean), standard deviation, maximum, and minimum values. The results of this test are shown in table 2.

The results of the residual data normality test before the outlier test (n=198) and after the outlier test (n=197) show that the data is normally distributed with a sig value of 0.200 > 0.05 so that the data used in this research is the data after the outlier test.

The classical assumption test findings demonstrate no multicollinearity and no autocorrelation. However, there is heteroscedasticity in the financial target (ROA), nature of industry (REC), quality of external auditor (BIG), change in director (DCHANG), and change in auditor (CPA).

The correlation coefficient (R) value in this research is 0.759, indicating that the association between the dependent variable fraudulent financial reporting (FFR) and the independent factors is strong and positive.

The coefficient of determination analysis (R2) for this research model is 0.553. This can be interpreted as 55.3% of the variation in the dependent variable, fraudulent financial reporting (FFR), can be explained by the variation in the independent variable, while the remaining 44.7% is explained by the variation in other independent variables that are not included in the regression model in this research. The F test results indicate that the model in this research is fit and suitable for research, with a sig value of 0.000 < 0.05.

Table 4. Change in Director

		Frequency	Valid Percent	Cumulative Percent
0	No change in director	117	59,4	59,4
1	There was a change in director	80	40,6	100,0
	Total	197	100,0	

Source: Output Statistics

Table 5. Change in Auditor

		Frequency	Valid Percent	Cumulative Percent
0	No change in auditor	176	89,3	89,3
1	There was a change in auditor	21	10,7	100,0
	Total	197	100,0	

Source: Output Statistics

Table 6. Political Connections

		Frequency	Valid Percent	Cumulative Percent
0	Company executives have no political connections	140	71,1	71,1
1	Company executives have political connections	57	28,9	100,0
	Total	197	100,0	

Source: Output Statistics

Table 7. t Test Result

Variable	B	.sig	Conclusion
Constant	-0,011	0,880	-
ROA	0,634	0,023	H_1 accepted
ACHANGE	0,556	0,001	H_2 accepted
LEV	0,077	0,580	H_3 rejected
BDOUT	-0,063	0,670	H_4 rejected
REC	-5,812	0,000	H_5 accepted
BIG	-0,064	0,108	H_6 rejected
DCHANG	0,090	0,010	H_7 accepted
CPA	-0,029	0,585	H_8 rejected
CEOPIC	0,000	0,965	H_9 rejected
POLCON	0,026	0,556	H_{10} rejected

Source: Output Statistics

The results of the t-statistic test show that the financial target (ROA) has a coefficient value of 0.634 and sig. of 0.023. The sig. value of 0.023 is less than the alpha value of 0.05 so that H_1 is accepted. Therefore, there is an individual influence of the financial target (ROA) on fraudulent financial reporting (FFR). The coefficient value of the financial target (ROA) is also positive for fraudulent financial reporting (FFR) which means that the financial target (ROA) has a positive effect on fraudulent financial reporting (FFR).

The company's financial performance, which has declined or does not meet the financial targets previously set by the board of directors, will certainly put pressure on the managers (Agusputri and Sofie 2018). Pressure can occur because managers have the responsibility to ensure that the previously set financial targets are achieved (Subiyanto et al. 2022). Financial targets create an obligation for managers to meet those targets, leading many of them to commit fraud if the financial targets are not met (Fathmaningrum and Anggarani 2021).

The results of the t-statistic test show that financial stability (ACHANGE) has a coefficient value of 0.556 and sig. of 0.001. The sig. value of 0.001 is less than the alpha value of 0.05 so that H_2 is accepted. Therefore, there is an individual influence of financial stability (ACHANGE) on fraudulent financial reporting (FFR). The coefficient value of financial stability (ACHANGE) is also positive for fraudulent financial reporting (FFR) which means that financial stability (ACHANGE) has a positive effect on fraudulent financial reporting (FFR).

The possibility of fraud in financial reporting will continue to increase along with the level of financial stability desired by a company. Therefore, many managers try to manipulate financial reports so that the company's prospects look promising in the eyes of investors, especially if in fact the company's financial condition and profitability are declining (Fathmaningrum and Anggarani 2021).

The results of the t-statistic test show that external pressure (LEV) has a coefficient value of 0.077 and sig. of 0.580. The sig. value of 0.580 is more than the alpha value of 0.05 so that H_3 is rejected. Therefore, there is no individual influence of external pressure (LEV) on fraudulent financial reporting (FFR).

The results of the t-statistic test show that ineffective monitoring (BDOUT) has a coefficient value of -0.063 and sig. of 0.670. The sig. value of 0.670 is more than the alpha value of 0.05 so that H_4 is rejected. Therefore, there is no individual influence of ineffective monitoring (BDOUT) on fraudulent financial reporting (FFR).

The results of the t-statistic test show

that the nature of industry (REC) has a coefficient value of -5.812 and sig. of 0.000. The sig. value of 0.000 is less than the alpha value of 0.05 so that H_5 is accepted. Therefore, there is an individual influence of the nature of industry (REC) on fraudulent financial reporting (FFR). The coefficient value of the nature of industry (REC) is negative for fraudulent financial reporting (FFR) which means that the nature of industry (REC) has a negative effect on fraudulent financial reporting (FFR).

Companies have more flexibility to manipulate accounts receivable balances and due dates allowing them to carry out fraudulent financial reporting as needed (Nurmala and Rahmawati 2019).

The results of the t-statistic test show that the quality of external auditors (BIG) has a coefficient value of -0.064 and sig. of 0.108. The sign value. of 0.108 is more than the alpha value of 0.05 so that H_6 is rejected. Therefore, there is no individual influence of the quality of external auditors (BIG) on financial reporting fraud (FFR).

The results of the t-statistic test show that the change in director (DCHANG) has a coefficient value of 0.090 and sig. of 0.010. The sig. value of 0.010 is less than the alpha value of 0.05 so that H_7 is accepted. Therefore, there is an individual influence of the change in director (DCHANG) on fraudulent financial reporting (FFR). The coefficient value of the change in director (DCHANG) is positive for fraudulent financial reporting (FFR) which means that the change in director (DCHANG) has a positive effect on fraudulent financial reporting (FFR).

According to Wolfe and Hermanson (2004) when a change in director is made, the new director needs to adjust to the new company culture and tend to feel difficult so that the effectiveness of their performance will decrease. Fraudulent actions will be carried out to cover up the shortcomings of the new director. This happens to ensure that the company's performance improves under the new director' leadership. They use their intellect and financial skills to engage in fraudulent financial reporting in order to maximize financial report results.

The results of the t-statistic test show that auditor change (CPA) has a coefficient value of 0.000 and sig. of 0.965. The sig. value of 0.965 is more than the alpha value of 0.05 so that H_8 is rejected. Therefore, there is no individual effect of auditor change (CPA) on fraudulent financial reporting (FFR).

The results of the t-statistic test show that the frequent number of CEO's picture (CEOPIC) has a coefficient value of 0.000 and sig. of 0.965. The sig. value of 0.965 is more than the alpha value of 0.05 so that H_9 is rejected. Therefore, there is no individual effect of frequent number of CEO's picture on fraudulent financial reporting (FFR).

The results of the t-statistic test show that political connections (POLCON) have a coefficient value of 0.026 and sig. of 0.556. The sig. value. of 0.556 is more than the alpha value of 0.05 so that H_{10} is rejected. Therefore, there is no individual influence of political connections (POLCON) on fraudulent financial reporting (FFR).

CLOSING

The results of this research indicate that financial target, financial stability, nature of industry, and changes in director have an effect on fraudulent financial reporting. Financial targets, financial stability, and changes in directors have a positive effect on fraudulent financial reporting. Nature of industry has a negative effect on fraudulent financial reporting. Meanwhile, external pressure, ineffective monitoring, quality of external auditor, changes in auditor, frequent number of CEO's picture, and political connections do not have an effect on fraudulent financial reporting.

The limitations of this research are that (1) it only uses a sample of manufacturing companies, thus the findings cannot be generalized to all company sectors. (2) Because the research period is just three years long, from 2021 to 2023, the effect of independent variables on dependent variables cannot be fully

described. (3) The presence of heteroscedasticity in the five variables in this research, namely, financial target (ROA), nature of industry (REC), external auditor quality (BIG), change in director (DCHANG), and change in auditor (CPA).

Recommendations for further research include: (1) extending the research time to expand the generalization of research findings.

(2) Adding industry categories such as basic materials and healthcare to enhance the generalizability of research findings. (3) To overcome the problem of heteroscedasticity, enlarge the sample of enterprises by enlarging the industrial sector and the observation time.

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