

FACTORS THAT AFFECT FRAUDULENT FINANCIAL REPORTING

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Abstract: *The objective of this research is to obtain empirical evidence of the influence of factors that can affect fraudulent financial reporting. Those factors are financial targets, financial stability, external pressure, institutional ownership, number of audit committee members, ineffective monitoring, nature of industry, external auditor quality, the change of auditor, auditor's opinion, change of directors, proportion of independent commissioner, and numbers of CEO's picture. The variables used on this research if from fraud pentagon theory perspective. This research's population is manufacturing companies listed in Indonesia Stock Exchange (IDX) from 2017 to 2020. The sample of this research is selected by using purposive sampling based on several criteria. This research uses 302 data from 101 listed manufacturing companies as the sample. The method used for analyzing and testing the data on this research is by multiple regression to see the influence between independent variables and fraudulent financial reporting. The result of this research shows that financial targets, nature of industry, and auditor's opinion have significant influence on fraudulent financial reporting. In contrast, financial stability, external pressure, institutional ownership, number of audit committee members, ineffective monitoring, external auditor quality, the change of auditor, change of directors, proportion of independent commissioner, and numbers of CEO's picture have no significant value to fraudulent financial reporting.*

Keywords: fraudulent financial reporting, f-score, financial targets, nature of industry, auditor's opinion, change of directors, fraud pentagon theory

Abstrak: Penelitian ini bertujuan untuk memperoleh bukti empiris pengaruh faktor-faktor yang dapat mempengaruhi kecurangan pelaporan keuangan. Faktor-faktor tersebut adalah target keuangan, stabilitas keuangan, tekanan eksternal, kepemilikan institusional, jumlah anggota komite audit, pemantauan yang tidak efektif, kondisi industri, kualitas auditor eksternal, pergantian auditor, opini auditor, pergantian direksi, proporsi komisaris independen, dan jumlah foto CEO. Variabel-variabel yang digunakan dalam penelitian ini dilihat dari perspektif teori fraud pentagon. Populasi penelitian ini adalah perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) dari tahun 2017 sampai tahun 2020. Pemilihan sampel penelitian ini menggunakan *purposive sampling* berdasarkan beberapa kriteria. Penelitian ini menggunakan 302 data dari 101 perusahaan manufaktur yang terdaftar sebagai sampel. Metode yang digunakan untuk menganalisis dan menguji data pada penelitian ini adalah dengan regresi berganda untuk melihat pengaruh antara variabel independen dan kecurangan pelaporan keuangan. Hasil penelitian ini menunjukkan bahwa target keuangan, sifat industri, dan opini auditor berpengaruh signifikan terhadap kecurangan pelaporan keuangan. Sebaliknya, stabilitas keuangan, tekanan eksternal, kepemilikan institusional, jumlah anggota komite audit, pemantauan yang tidak efektif, kualitas auditor eksternal, pergantian auditor, pergantian direksi, proporsi komisaris independen, dan jumlah foto CEO tidak memiliki pengaruh yang signifikan terhadap kecurangan laporan keuangan.

Kata kunci: kecurangan laporan keuangan, f-score, keadaan industri, target keuangan, opini auditor, perubahan direksi, teori fraud pentagon

INTRODUCTION

Financial statement is a record in a written statement regarding the business activities and also their financial performance of a company. It is a form of communication that is used by companies to communicate externally and also to provide information about the company's activities in a limited period of time (Apriliana and Agustina 2017). The information that is presented in financial statements will also be used as a benchmark for the users to assess the effectiveness and efficiency of that company, thus, the management in order to attract the users' attention will present the financial statements as attractive as possible (Nanda et al. 2019). Financial statement consists of important information that have important factor in the process of economic decision making for both internal and external parties (Felicya and Sutrisno 2020).

In order to present the best figure in their financial statement, some companies will try to make fraudulent financial reporting. This particular activity will harm various parties. When financial statement's data presented is not in accordance with the actual circumstances, then it would make the information to be not relevant as the basis for decision making. It also makes huge losses to the investors, in which the capital that was invested from their investment will not return because of the manipulated data in the financial statement (Apriliana and Agustina 2017).

In addition, Steinhoff, a South African retailer, is one of the examples of a company that does accounting fraud (Motsoeneng and Rumney 2019). Their fraud consists of a small group of top executives and outsiders. They made an overstated profits and assets value over a period of 2009-2017 financial years. The amount of accounting fraud detected was \$7.4 billion. In this

case, Steinhoff mitigated losses in the operating entities, then made an onward distribution of the fictitious income (Richter 2019). Therefore, fraudulent financial reporting is interesting to be researched further because of the effect that it has that can make the users of financial statements suffer losses.

Fraudulent financial statements by management usually have a scheme that was well-crafted and sometimes very difficult to trace while also very detrimental to the company. Hence, knowing the cause of fraudulent financial reporting is very important (Rizani and Respati 2018). According to Kartikasari and Irianto (2010), big companies that suffer from collapse are usually because of financial report manipulation. According to the survey conducted by ACFE (2020), financial statement fraud has a higher median loss per month than any other occupational fraud schemes.

American Institute Certified Public Accountant (AICPA) defined financial statement fraud as a deliberate, misstatement or omission of material facts, or misleading of accounting data, so it could affect the reader to change their decision or judgement after considering all of the information that has been created (Arens et al. 2017). The term fraudulent financial statement differs from other causes that result in materially misleading financial statements, such as unintentional errors and other misstatements that do not necessarily cause material inaccuracies (Beasley et al. 1999).

This research is purposely made to know more regarding what affects fraudulent financial reporting using the pentagon fraud theory. Fraudulent financial reporting is interesting to be researched because it could affect decision-

making for the users. Fraudulent financial reporting also results in large losses.

Agency Theory

Jensen and Meckling (1976) stated that agency relations is about involvement of one or more people (principals) by other people (agents) to do certain services on their account by delegating some authority for decision making to the agent. It is implied that there is a different interest between the principals and the agents in agency theory. The shareholders contracted the managements. Therefore, they will work in the interest of the shareholders, and agents will always act best for the shareholder's interest. This means that the managers are responsible to shareholders (Akbar 2017). Agency relationship is a contract of principals and agents in which both parties act to maximize utility (Jensen and Meckling 1976).

Managers act as an agent in a company who are morally responsible for optimizing the owners' profit (principals). Managers, on the other hand, have an interest in increasing their own well-being. (Ujiyantho and Agus Pramuka 2007). Thus, problems arise when executives or managers make decisions and they prioritize their benefit personally (rationalization). This creates a conflict of interest between agents and principals, as in managers as agents will have to face various pressure from principals to increase the performance of the company (Yulistyawati et al. 2019).

Fraudulent Financial Reporting

ACFE categories fraud in three group, in which consist of corruption, asset misappropriation, and fraudulent statements (ACFE 2020). According to ACFE (2020), asset misappropriation is involving theft and misuse of organizations' resources by an employee.

Corruption is including bribery, conflict of interest and extortion. While fraudulent financial statement is when the fraudster intentionally making a material misstatement or omission in the financial reporting.

Fraud has theories such as fraud triangle theory that were introduced by Cressey in 1953 to explain factors about it (Wells 2013, 13). Cressey stated that fraudulent financial reporting always occurs in these three situations, which are pressure, opportunity, and rationalization. The theory would later be developed into fraud diamond stated by Wolfe and Hermanson in 2004, in which in this theory a qualitative element, capability, is added. Crowe in 2011 helped to develop this theory again by adding another qualitative element, in which arrogance. Thus, the five fraud risk factors or known as the fraud pentagon theory consist of opportunity, rationalization, pressure capability, and arrogance (Nanda et al. 2019)

Fraudsters who do fraud are motivated from both internal and external factors (Kristiyani and Hamidah 2020). Fraudulent financial reporting is influenced by factors of opportunity, rationalization, and pressure; these create the statement called fraud triangle theory that was introduced by Cressey in 1953 according to Wells (2013). Pressure is the encouragement that causes individuals to do fraud such as debt, luxury, and others. Opportunity is the situation that makes the fraud to happen possible, it could happen because of the organization's weak internal control, abuse of authority. Rationalization is the reasoning or when the perpetrators will try to make justifications for their action (Rizani and Respati 2018). Wolfe and Hermanson (2004) adds a new factor called capability which is a qualitative element. Horwath (2011) adds more to the theory by adding competence and arrogance to the factors that support fraud. Competence is the

element of opportunity in which they are capable of controlling the internal control for their own benefit. Arrogance comes from a sense of superiority and greed resulting from the occurrence of crimes that they believe are exempt from corporate policy and procedures.

Fraud that occurs of fraudulent statements usually involving the top management (Rizani and Respati 2018). Fraudulent financial reporting would harm many parties. When data presented is not in comply with the actual conditions of in the financial statement, it would make the information not relevant as the basis for decision-making (Apriliana and Agustina 2017). Thus, fraudulent financial statement is a serious matter for both other stakeholders and investors (Fitri et al. 2019).

According Wells (2013, 306) fraudulent financial reporting is harmful because it would impair the process of financial reporting especially in its reliability, quality, transparency, and integrity. It can also jeopardize the auditing profession, to be specific in its integrity and objectivity. It can also make the capital market's confidence diminish to the reliability of financial information and also makes the capital market to be less efficient.

Financial Targets and Fraudulent Financial Reporting

Financial targets are the targets in the form of return on the business that was set by the management or the executives. Manager is being demanded to have good performance so the company can achieve the target they want to achieve (Nurbaiti and Hanafi 2017). This creates pressure for the management to generate high profit according to the wishes of the owner, as this can be explained by the agency theory.

Financial targets have an effect on fraudulent financial reporting because financial targets can be used as an indicator for receiving

bonus, promotion, return, and thus high ROA can increase higher possibility of fraud to be committed (Apriliana and Agustina 2017). When the company has lower financial performance, it could be interpreted as the management failing to achieve their financial target, thus they could try to do everything that they could to achieve the financial targets including by manipulating the financial report (Agusputri and Sofie 2019). It could create loopholes for managers to have their financial performance according to the targets by manipulating financial statements (Hidayah and Saptarini 2019).

This is supported by research conducted by Agusputri and Sofie (2019), Hidayah and Saptarini (2019), and Rengganis et al. (2019). On the other hand, the result of this research is not consistent with the research conducted by Apriliana and Agustina (2017), Rizani and Respati (2018), Achmad and Pamungkas (2018), Sabatian and Hutabarat (2020), Annisya et al. (2016), Mukhtaruddin et al. (2020) that stated financial targets has no significant influence to fraudulent financial reporting. Based on the description above, the hypothesis is formed as follow:

H₁: Financial targets affect fraudulent financial reporting

Financial Stability and Fraudulent Financial Reporting

Value of a company will increase in the perspective of the investors, creditors, and public when the company's condition is financially stable (Akbar 2017). Financial stability is defined as an ability that the company has completed obligations in the short term of the company (Achmad and Pamungkas 2018).

When the financial condition of the company is in bad condition, this is indicated by the low or negative value of company assets. Thus, it can be suspected that the management

might have manipulate their financial record to have better financial stability so their performance can be considered as good (Rizani and Respati 2018).

Management could be pressured to keep stable financial conditions so the company get a lot of capital from investors (Apriliana and Agustina 2017). Management could try to do anything, including fraudulent financial reporting, in order to keep financial stability in their company (Agusputri and Sofie 2019).

Financial stability has influence on fraudulent financial reporting is supported with the research conducted by Sihombing and Rahardjo (2014), Apriliana and Agustina (2017), Utami and Pusparini (2019), Achmad and Pamungkas (2018), Fitri et al. (2019), Inayanti and Sukirman (2016), and Annisya et al. (2016). On the other hand, research conducted by Rizani and Respati (2018), Utami and Pusparini (2019), Sabatian and Hutabarat (2020), Agusputri and Sofie (2019), and Rengganis et al. (2019) stated that financial stability has no influence. Based on the description above, the hypothesis is formed as follow:

H₂: Financial stability affects fraudulent financial reporting

External Pressure and Fraudulent Financial Reporting

Companies tend to have external pressure from external parties, such as the pressure that they face to get additional debt or leverage in order to stay competitive (Akbar 2017). The management that suffer from overwhelming pressure to succeed requirements or expectation from external parties can be called as external pressure (Nurbaiti and Hanafi 2017).

Outside pressure might happen when the management want to get leverage from a bank, and the bank would require the firm's leverage. When the company is considered having

difficulties in financial, the management could have the pressure to do fraud by manipulating the financial statement to obtain the desired leverage value (Rizani and Respati 2018).

The occurrence of pressure from external parties can also indicate the risk of fraudulent financial statement happening in that company (Mukhtaruddin et al. 2020). When the company have high amount of debt, then the credit risk is also high (Nugraha and Henny 2015). Higher risk could make higher possibilities fraudulent financial reporting occurred. Thus, high credit risk means that there is concern on the capability of the company to return the capital loan (Hanifa and Laksito 2015).

External pressure has influence on fraudulent financial reporting is supported with the research conducted by Achmad and Pamungkas (2018), Annisya et al. (2016), Tiffani and Marfuah (2015), Agusputri and Sofie (2019), Rahman and Nurbaiti (2019). However, research conducted by Rizani and Respati (2018) Utami and Pusparini (2019), Sabatian and Hutabarat (2020), Mukhtaruddin et al. (2020) stated that there were no influence to fraudulent financial statement. Based on the description above, the hypothesis is formed as follow:

H₃: External pressure affects fraudulent financial reporting

Institutional Ownership and Fraudulent Financial Reporting

Institutional ownership is shares ownership by institution such as pension fund, bank, financial company, and others (Harianto and Agustina 2016). When there is an institutional ownership, management will experience pressure because they have bigger responsibility (Akbar 2017). Institutional ownership is expected to be an effective monitoring in regards of decision-making done by manager. The institution would have

bigger power to supervise the company's management in all of its activities when there is a greater institutional ownership (Pratomo and Nuraulia 2021).

When the company has higher company's ownership, then they would have a higher tendency to change company policy direction, thus, if the company experiences decline in performance, the management will manipulate the financial data thus causing an occurrence of fraud (Rizani and Respati 2018). Management has to face pressure because they will have bigger responsibilities to both individuals and the institution (Akbar 2017). Management tends to try to make their financial statement look better, one of the ways is by manipulate it because they do not want to lose the investor from institution (Tessa and Harto 2016). Institutional ownership has an influence on fraudulent financial reporting is supported with the research conducted by Akbar (2017). However, research conducted by Riandani and Rahmawati (2019), Apriliana and Agustina (2017) stated that there were no influence to fraudulent financial statement. Based on the description above, the hypothesis is formed as follow:

H₄: Institutional ownership affects fraudulent financial reporting

Numbers of Audit Committee and Fraudulent Financial Reporting

A company needs a supervisory unit that is capable of monitoring the company's operation. An audit committee, therefore, is needed and formed by the company to conduct supervision. Their existence is expected by the company to reduce the opportunity of fraudulent financial reporting. When the company have weak supervision, especially from the committee of audit, it can lead to management doing fraud (Annisya et al 2016). Audit committee in the

company's organization structure as an independent committee is partly responsible for the integrity of the financial reporting process (Nellyana 2015). Audit committee has knowledge regarding the preparation of financial statements and internal control principles (Honggo and Marlinah 2019).

Companies need to have a supervisory unit that is capable of monitoring the operations of the company in order to avoid fraudulent reporting activities done by management (Akbar 2017). Fraud can happen because of the company's weak internal control, and there are no prevention nor prior detection (Sari et al. 2020). Thus, this can create an opportunity for company to do fraud. The more audit members number would make the supervision to be more effective since it lessens the opportunity of management to do fraud, therefore this implied that more audit committees member will lower fraudulent activities (Novira et al 2018). Number of audit committee has an influence on fraudulent financial reporting is supported with the research conducted by Anggraini and Suryani (2021). However, research conducted by Akbar (2017) and Novira et al. (2018) stated that there were no influence to fraudulent financial statement. Based on the description above, the hypothesis is formed as follow:

H₅: Numbers of audit committee members affects fraudulent financial reporting

Ineffective Monitoring and Fraudulent Financial Reporting

Ineffective monitoring can be defined as a company's lack of an effective internal control system. (Mukhtaruddin et al. 2020). Ineffective monitoring is defined by the ineffectiveness of a company when they oversee its performance because there is no effective monitoring unit in that company. It means that the company has weak

internal control that would trigger fraud problems in the company (Widarti 2015).

When the company wants to avoid fraudulent activities, they need to have a supervisory unit in which they are able to monitor the road company. Without the monitoring, it would spread the accounting scandals and also the occurrence of fraud (Ujiyantho and Agus Pramuka 2007). When the company has effective monitoring, it can help them preventing fraudulent financial statement from happening (Rizani and Respati 2018).

Audit committee is one supervisory unit that is responsible for overseeing the financial statements (Rizani and Respati 2018). With audit committee, it is expected that the opportunity of fraud to occur will be decreased (Rizani and Respati 2018). When the function of the audit committee does not work, it could create an opportunity for the fraudster to do fraudulent activities (Pamungkas et al. 2018). Ineffective monitoring has an influence on fraudulent financial reporting is supported with the research conducted by Rengganis et al. (2019), while research conducted by Rizani and Respati (2018), Eko Adit (2019), Kamarudin and Ismail (2014) stated there is no influence to fraudulent financial reporting. Based on the description above, the hypothesis is formed as follow:

H₆: Ineffective monitoring affects fraudulent financial reporting

Nature of Industry and Fraudulent Financial Reporting

Nature of industry is the situation and condition that was deemed as ideal by a company in an industrial environment, in which it can also be an opportunity for companies that want to conduct financial statement fraud (Hidayah and Saptarini 2019). Nature of industry talks about balances in certain accounts that are determined based on

estimation and personal judgement (Skousen et al. 2008). Management can manipulate financial reporting by assessment of estimation such as bad debt expense and obsolete inventories. This could create a higher opportunity to do fraudulent financial reporting. Fraud can happen because of the opportunities that are available, such as when using accounting estimation which is complex and needs subjective considerations (Puspitha and Yasa 2018). Nature of industry has influence on fraudulent financial reporting is supported with the study conducted by Yulistyawati et al. (2019), while the results of the study conducted by Sabatian and Hutabarat (2020), Annisya et al. (2016), Tiffani and Marfuah (2015), Puspitha and Yasa (2018), Akbar (2017) stated there is no influence towards fraudulent financial reporting. Based on the description above, the hypothesis is formed as follow.

H₇: Nature of industry affects fraudulent financial reporting

External Auditor Quality and Fraudulent Financial Reporting

The quality of financial statement is seen to be improved by the auditor quality. Opportunity of fraudulent act arises when management can choose Public Accounting Firm (KAP) that can work together to commit fraud (Apriliana and Agustina 2017). Quality of audit that can be considered as good is when the auditor implements the standard and audit principle, when they are independent and does not side with any parties, comply with the government regulations and the ethical code of profession (Hanifa and Laksito 2015). According to International Standards on Auditing, reasonable assurance of financial statements is given by external auditors to ensure that financial statements are free from material misstatements (Zager et al. 2016). Companies that were audited by big four public

accountants are considered more trustworthy by investors (Darmawan and Saragih 2017). Four largest accounting firms are represented by the Big Four which are Deloitte & Touche, Ernst and Young, KPMG, and PricewaterhouseCoopers (Suyanto 2009).

Large Public Accounting firms or KAP are expected to have higher audit quality than small KAP, then it is expected that their clients would have lesser error and prepare the financial reporting correctly (Apriliana and Agustina 2017). Bigger audit companies could lose reputation and trust if they give low quality audit reports, therefore they would likely to give better quality on the audit report (Teguh and Kristanto 2020). Fraud would have a better chance to be detected when the company is audited by a big auditing firm since they have a great audit quality (Hanifa and Laksito 2015). External auditor quality has influence on fraudulent financial reporting is supported with the study conducted by Apriliana and Agustina (2017), Utami and Pusparini (2019), Amara et al. (2013). However, the results of the study conducted by Rahman and Nurbaiti (2019), Achmad and Pamungkas (2018) stated there is no influence towards fraudulent financial reporting. Based on the description above, the hypothesis is formed as follow:

H₈: External auditor quality affects fraudulent financial reporting

Change of Auditors and Fraudulent Financial Reporting

External auditor considered as a party that have independency thus they can reveal when fraud happens by a company (Apriliana and Agustina 2017). Auditor is an important component that check the financial statements. When they do fraud, the information will be known by the auditor (Akbar 2017).

When KAP of the company is repeatedly changed, it could imply that the company is trying to hide the fact that they committed fraud. Changes in auditors are a rationalization of the organization since they are supposed to assist in concealing the fraud trail discovered by the previous auditor. Thus, management tend to replace previous period auditor that occur within the company (Apriliana and Agustina 2017). Eliminating fraud trail can be done by companies by changing auditors. Thus, the more fraud occurs in a company, the more frequent changes of auditors happened (Sari et al. 2020). Besides that, when changes in auditor occurs, fraud committed by the company could be undetected by the auditor since they are still unfamiliarized with the thorough condition of the company (Hidayah and Saptarini 2019). Change of auditors has influence on fraudulent financial reporting is supported with the study conducted by Utami and Pusparini (2019), Fitri et al. (2019), Agusputri and Sofie (2019). On the other hand, the results of the study conducted by Apriliana and Agustina (2017), Inayanti and Sukirman (2016), Mukhtaruddin et al. (2020), Hidayah and Saptarini (2019) stated there is no influence towards fraudulent financial reporting. Based on the description above, the hypothesis is formed as follow:

H₉: The change of auditors affects fraudulent financial reporting

Auditor's Opinion and Fraudulent Financial Reporting

Auditor can also act as the early warning when fraud happens in a company. They would tell it through auditor's opinion when something unusual happened to the audited financial statements. Management rationalizes their action by doing earnings management that already leaning to fraudulent financial reporting (Akbar 2017). Audit opinion itself is the assurance that

auditor gives to company regarding the financial statements by having an independent and expert opinion about the fairness of the reports (Hayes et al. 2005). Auditors need to have sufficient findings before they give unqualified opinion since the decision could have huge impact to other related parties (Suparmun 2014). When the company have committed fraud and the auditor cannot detect it, then it can be a rationalization for management because they think their mistakes has been tolerated by the auditor Annisya et al. (2016).

Management with low integrity means a higher level of rationalization (Amaliah et al. 2015). According to Francis and Krishnan (1999) in Akbar (2017), excess usage of discretionary accruals from earnings management would result to adverse opinion. When auditor tolerated the management's actions, then the action of manipulation conducted by the management is considered as a correct action and not a mistake (Rizani and Respati 2018). (Hidayah and Saptarini 2019). Auditor's opinion has influence on fraudulent financial reporting is supported with the study conducted by Sari et al. (2020) and Ulfah et al. (2017) On the other hand, the results of the study conducted Akbar (2017), Annisya et al. (2016), Rengganis et al. (2019) stated there is no influence towards fraudulent financial reporting. Based on the description above, the hypothesis is formed as follow:

H₁₀: Auditor's opinion affects fraudulent financial reporting

Change of Directors and Fraudulent Financial Reporting

The transfer of authority from the prior director to the present one in order to improve the company's performance is known as a change of directors. However, it can also result in a period of

stress, which might create an opportunity for fraud to occur. (Nurbaiti and Hanafi 2017).

The capacity is owned by the board of directors within the company, thus they would have more information that they can use to do fraudulent activities (Apriliana and Agustina 2017). Change of directors can also be a company's way to eliminate directors that know about the fraud that the company had done (Inayanti and Sukirman 2016). Change of directors has influence on fraudulent financial reporting is supported with the study conducted Utami and Pusparini (2019) and Hidayah and Saptarini (2019) On the other hand, the results of the study conducted Akbar (2017), Apriliana and Agustina (2017), Annisya et al. (2016), Mukhtaruddin et al. (2020) stated there is no influence towards fraudulent financial reporting. Based on the description above, the hypothesis is formed as follow:

H₁₁: Change of directors affects fraudulent financial reporting

Proportion of Independent Commissioners and Fraudulent Financial Reporting

Fraudulent activities can be minimized when the company have better supervision mechanism (Achmad and Pamungkas 2018). Independent commissioner will increase the effectiveness of board when overseeing management to reduce opportunity of fraud can happen (Akbar 2017). Board of commissioner have responsibility to supervise the effectiveness of internal control (Marceline and Harsono 2017). Independent board of commissioners is included in capability which means the level of capacity and strength of a person in the company that can influences the act of fraudulent financial reporting (Achmad and Pamungkas 2018).

With supervision from independent commissioner, it is expected for company to goes effectively and lessen fraud activity (Hanifa and

Laksito 2015). Fraud often happened in companies that have lesser independent board of commissioners (Mukhtaruddin et al. 2020). Proportion of independent commissioners has influence on fraudulent financial reporting is supported with the study conducted by Akbar (2017), Achmad and Pamungkas (2018), Rengganis et al. (2019). On the other hand, Sabatian and Hutabarat (2020) stated there is no influence towards fraudulent financial reporting. Based on the description above, the hypothesis is formed as follow:

H₁₂: Proportion of independent commissioners affects fraudulent financial reporting

Number of CEO's Picture and Fraudulent Financial Reporting

Number of CEO's picture can display the arrogance of the CEO. It demonstrates that they indirectly represent the CEO's arrogance. This arrogance can have an impact on the company's performance, as well as the likelihood of fraudulent financial reporting (Akbar 2017). With showing the picture it indicates that they do not want to lose that status and power, and they love being in that position (Apriliana and Agustina 2017). The more pictures of CEO in annual report, it shows that the CEO wants to show everyone of their status and glory (Agusputri and Sofie 2019).

When a company's annual report contains a greater number of images of its CEO, it's

expected that arrogance's nature has increased. (Sari et al. 2020). Possibility occurrence of fraud happening because of the arrogance and superiority of the CEO, as a result, the CEO felt invisible, and internal control would not apply to them because of their high position and standing. (Tessa and Harto 2016). Number of CEO's picture has influence on fraudulent financial reporting is supported with the study conducted by Apriliana and Agustina (2017) and Utami and Pusparini (2019). On the other hand, the results of the study conducted Akbar (2017), Agusputri and Sofie (2019), Hidayah and Saptarini (2019), Rahman and Nurbaiti (2019), Septriyani and Handayani (2018) stated there is no influence towards fraudulent financial reporting. Based on the description above, the hypothesis is formed as follow:

H₁₃: Number of CEO's picture affects fraudulent financial reporting

RESEARCH METHOD

This research's population is manufacturing companies listed on Indonesia Stock Exchange (IDX) from 2017-2020. The sample on this research were selected through purposive sampling. The sample selection is shown as Table 1 below:

Table 1 Sample Selection Procedure

	Criteria Description	Total Firms	Total Data
1	Manufacturing companies that are consistently listed and published their financial report in Indonesia Stock Exchange from 2017 to 2020	149	447
2	Companies that used IDR currency in their financial reporting from 2017 to 2020	(29)	(87)
3	Companies that published financial statements ended period as of 31 st December from 2017 to 2020	(1)	(3)
4	Companies that published annual report from 2018 to 2020	(2)	(6)
5	Companies that have institutional ownership from 2018 to 2020	(5)	(15)
6	Companies that record the amount of their audit committee meetings	(10)	(30)
7	Companies that have inventories from 2018 to 2020	(1)	(3)
	Number of sample firms used	101	303
	Outlier		(1)
	Number of data used		302

Fraudulent financial reporting is the condition when data presented in the financial reporting is not in accordance with the actual conditions which causes the information not to be relevant for decision-making materials, this could also affects losses for various parties (Apriliana and Agustina 2017).

To measure the dependent variable in this research, Fraud Score model is measured with the computation from (Annisya et al. 2016) in (Akbar 2017) as below:

$$F - Score = \frac{Accrual\ quality}{Financial\ Performance}$$

The first component, accrual quality, is proxied by RSST Accrual (Richardson et al. 2005) as below:

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

Description:

WC (Working Capital):

$$(Current\ Assets - Current\ Liabilities)$$

NCO (Non-Current Operating Accrual):

$$\begin{aligned} &(Total\ Assets - Current\ Assets \\ &\quad - Investment\ and\ Advances) \\ &\quad - (Total\ Liabilities \\ &\quad - Current\ Liabilities \\ &\quad - Long\ Term\ Debt) \end{aligned}$$

FIN (Financial Accrual):

$$Total\ Investment - Total\ Liabilities$$

ATS (Average Total Assets):

$$\frac{(Beginning\ Total\ Assets + Ending\ Total\ Assets)}{2}$$

The second component, financial performance, is measured with the changes in receivables, changes in inventories, changes in cash sales, and also changes in earnings before interest and tax (EBIT) (Skousen and Twedt 2009). The measurements are as follows:

Financial Performance

$$\begin{aligned}
 &= \text{Change on receivable} \\
 &+ \text{change on inventories} \\
 &+ \text{change on cash sales} \\
 &+ \text{change on earnings} \\
 &\quad \Delta \text{Receivables}
 \end{aligned}$$

$$\text{Change on receivables} = \frac{\Delta \text{Receivables}}{\text{Average Total Assets}}$$

$$\text{Change on inventories} = \frac{\Delta \text{Inventories}}{\text{Average Total Assets}}$$

$$\begin{aligned}
 \text{Change on cash sales} \\
 &= \frac{\Delta \text{Sales}}{\text{Sales}_{(t)}} - \frac{\Delta \text{Receivables}}{\text{Receivables}_{(t)}}
 \end{aligned}$$

$$\begin{aligned}
 \text{Change on earnings} \\
 &= \frac{\text{Earnings}_{(t)}}{\text{Average Total Assets}_{(t)}} \\
 &\quad - \frac{\text{Earnings}_{(t-1)}}{\text{Average Total Assets}_{(t-1)}}
 \end{aligned}$$

Financial targets can be measured using return of total assets (ROA) which used to indicate how assets have been employed efficiently. Based on the research conducted by Akbar (2017), the formula used for ROA is:

$$\text{ROA} = \frac{\text{Earning after tax}}{\text{Total Assets}}$$

Financial stability measured using percent of total asset change. According to the research conducted by Apriliana and Agustina (2017), the formula used is as follows:

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

Managers might feel pressure related to how they can get additional debt to finance the company so they can stay competitive. Thus, leverage can be used as a measurement of the external pressure (Skousen, Smith, and Wright 2008). Leverage as a variable use ratio scale. The formula stated by Akbar (2017) is as below:

$$\text{LEV} = \frac{\text{Total Liabilities}}{\text{Total assets}}$$

Number of audit committee members is important since with audit committee will have the consequence on financial reporting such as decreases accountant misstatement and fraud and illegal activity from management (Amaliah et al. 2015). This variable used ratio scale. The measurement based on Akbar (2017) is as follows:

$\text{AUDSIZE} = \text{Total numbers of audit committees}$

Ineffective monitoring is the condition when the company is ineffective since there is no effective monitoring for supervisory that oversight the company (Rizani and Respati 2018). This variable use ratio scale. This variable measure how many of audit committee meetings conducted. The formula based on Rizani and Respati (2018) is as follows:

$\text{KA} = \text{numbers of audit committee meetings}$

Balances in certain accounts are based majority on estimation and subjective judgements, such as uncollectible accounts and obsolete inventory (Skousen et al., 2008). This variable use ratio scale. The formula based on Akbar (2017) is:

$$\text{INV} = \frac{\text{Inventory}_t}{\text{Sales}_t} - \frac{\text{Inventory}_{t-1}}{\text{Sales}_{t-1}}$$

Auditors in BIG4 KAP is expected to have better expertise, thus it is assumed that their clients would likely correctly applied the accounting standard and have published financial statement with less errors (Apriliana and Agustina 2017). This variable use nominal scale in the measurement. According to Apriliana and Agustina (2017), the formula is as below:

BIG

$= \text{using dummy variable code 1 for companies that use KAP 4's services, and code 0 for otherwise}$

According to Apriliana and Agustina (2017), company changed external auditor because they were not content with the previous period's work of external auditor. This variable used nominal scale. Based on the research done by Akbar (2017), the formula is as follows:

$\text{AUDCHANGE} = \text{Dummy variable}$

code 1 indicate that there is a change in auditor and code 0 for the otherwise.

Auditor's opinion is regarding to the financial reporting can be given as qualified or otherwise. Auditor's opinion in measurement uses nominal scale. Based on the study conducted by Akbar (2017), the formula for auditor's opinion is as follows:

AUDREP = A dummy variable code 1 indicate there is a qualified opinion, and code 0 is for the otherwise

Change in directors can also be as an attempt by company to get rid of directors that know about the fraud (Inayanti and Sukirman 2016). In this research, the change of directors uses nominal scale, with how many times the directors have changed. Based on the study by Akbar (2017), the formula is as follows:

DCHANGE = a dummy variable code 1 is when there is a change in structure of directors and code 0 for the otherwise

Independent board of commissioners that exist within a company will provide higher independent and monitoring that is objective to the company and help to make the company more

competitive (Apriliana and Agustina 2017). This variable use ratio scale. Based on the research conducted by Akbar (2017), the formula is as follows:

$$IND = \frac{\text{The number of independent board}}{\text{the total of number commissioner}}$$

CEO is one of the keys to a corporate success. CEO tends to show everyone regarding the status and position that they have, thus it also made them have high arrogance and superiority that can lead to fraud since they think internal control would not apply to them (Apriliana and Agustina 2017). This variable measurement is using ratio scale. Based on the study conducted by Akbar (2017), the formula is as follows:

$$CEOPIC = \text{Total number of CEO's picture that were shown in financial reporting}$$

RESULTS

Descriptive statistics result is shown on table 2 as below:

Table 2 Descriptive Statistics Result

Variable	N	Minimum	Maximum	Mean	Standard deviation
Fscore	302	-476.5109	82.4242	-2.0021	29.6180
ROA	302	-1.0498	0.4468	0.0345	0.1176
ACHANGE	302	-5.8748	0.6263	0.0125	0.3738
LEV	302	0.0651	1.9888	0.4653	0.2525
OSHIP	302	0.0219	0.9995	0.8023	0.1934
AUDSIZE	302	2	5	3.04	0.329
KA	302	3	45	7.08	5.767
INV	302	-1.4396	4.5450	0.0349	0.3346
BIG	302	0	1	0.33	0.471
AUDCHANGE	302	0	1	0.14	0.35
AUDREP	302	0	1	0.01	0.115
DCHANGE	302	0	1	0.4	0.492
IND	302	0.25	1	0.4084	0.1138
CEOPIC	302	0	13	2.71	1.691

Source: Statistics Output

Hypothesis test result is shown on table 3 as below:

Table 3 t Test Result

Variable	B	Sig.	Decision	Conclusion
(Constant)	5.799	0.593		
ROA	-22.13	0.048	Ha ₁ is supported	Has influence
ACHANGE	6.67	0.056	Ha ₂ is not supported	No influence
LEV	-5.609	0.231	Ha ₃ is not supported	No influence
OSHIP	-2.949	0.604	Ha ₄ is not supported	No influence
AUDSIZE	-0.387	0.904	Ha ₅ is not supported	No influence
KA	0.114	0.533	Ha ₆ is not supported	No influence
INV	-72.519	0.000	Ha ₇ is supported	Has influence
BIG	1.559	0.53	Ha ₈ is not supported	No influence
AUDCHANGE	0.463	0.881	Ha ₉ is not supported	No influence
AUDREP	38.944	0.000	Ha ₁₀ is supported	Has influence
DCHANGE	-1.681	0.444	Ha ₁₁ is not supported	No influence
IND	0.989	0.917	Ha ₁₂ is not supported	No influence
CEOPIC	-0.024	0.97	Ha ₁₃ is not supported	No influence

Source: Statistics Output

Based on t test result as shown on table 3, it indicates that financial target (ROA) has sig value of 0.044 and unstandardized beta value of -22.585. Sig value ≤ 0.05 , therefore since sig value is lower than alpha (α), this concludes that H1 is supported. Higher financial target achieved by the company means that the company would be more monitored by stakeholders, therefore management would be more careful and lessen the occurrence of fraudulent financial reporting (Suryandari et al 2019).

Based on t test result as shown on table 3, it indicates that financial stability (ACHANGE) has sig value of 0.056 and unstandardized beta value of 6.67. Sig value ≥ 0.05 , therefore since sig value is higher than alpha (α), this concludes that H2 is not supported. This means that there is no influence financial stability (ACHANGE) and fraudulent financial reporting. Based on t test result as shown on table 3, it indicates external pressure (LEV) has sig value of 0.231 and unstandardized

beta value of -5.609. Sig value ≥ 0.05 , therefore since sig value is higher than alpha (α), this concludes that H3 is not supported.

Based on t test result as shown on table 3, it indicates institutional ownership (OSHIP) has sig value of 0.604 and unstandardized beta value of -2.949. Sig value ≥ 0.05 , therefore since sig value is higher than alpha (α), this concludes that H4 is not supported.

Based on t test result as shown on table 3, it indicates numbers of audit committee (AUDSIZE) has sig value of 0.904 and unstandardized beta value -0.387. Sig value ≥ 0.05 , therefore since sig value is higher than alpha (α), this concludes that H5 is not supported. This means that there is no influence between numbers of audit committee (AUDSIZE) and fraudulent financial reporting.

Based on t test result as shown on table 3, it indicates ineffective monitoring (KA) has sig value of 0.533 and unstandardized beta value of

0.114. Sig value ≥ 0.05 , therefore since sig value is higher than alpha (α), this concludes that H6 is not supported. This means that there is no influence between ineffective monitoring (KA) and fraudulent financial reporting.

Based on t test result as shown on table 3, it indicates nature of industry (INV) has sig value of 0.000 and unstandardized beta value of -72.519. Sig value ≤ 0.05 , therefore since sig value is lower than alpha (α), this concludes that H7 is supported. The B value is -72.519 means that nature of industry (INV) has negative influence on fraudulent financial reporting. Management commits fraud by making material misstatements and manipulating the accounts related to estimations so that the financial statements seem good in the eyes of investors (Agusputri and Sofie 2019)

Based on t test result as shown on table 3, it indicates external auditor quality (BIG) has sig value of 0.53 and unstandardized beta value of 1.559. Sig value ≥ 0.05 , therefore since sig value is higher than alpha (α), this concludes that H8 is not supported. This means that there is no influence between external auditor quality (BIG) and fraudulent financial reporting.

Based on t test result as shown on table 3, it indicates change of auditors (AUDCHANGE) has sig value of 0.881 and unstandardized beta value of 0.463. Sig value ≥ 0.05 , therefore since sig value is higher than alpha (α), this concludes that H9 is not supported. This means that there is no influence between change of auditors (AUDCHANGE) and fraudulent financial reporting.

Based on t test result as shown on table 3, it indicates auditor's opinion (AUDREP) has sig value of 0.000 and unstandardized beta value of 38.944. Sig value ≤ 0.05 , therefore since sig value is lower than alpha (α), this concludes that H10 is supported. The B value is 38.944 means that auditor's opinion (AUDREP) has positive influence

on fraudulent financial reporting. Qualified opinion is considered as the least severe type of departure from an unmodified audit opinion, because disclaimer or adverse opinion is used when the condition as whole is considered as highly material by the auditor. Limitation on the scope of the audit or failure to follow generally accepted accounting principles can caused a qualified opinion (Arens et al. 2017).

Based on t test result as shown on table 3, it indicates change of directors (DCHANGE) has sig value of 0.444 and unstandardized beta value of -1.681. Sig value ≥ 0.05 , therefore since sig value is higher than alpha (α), this concludes that H11 is not supported. This means that there is no influence between change of directors (DCHANGE) and fraudulent financial reporting.

Based on t test result as shown on table 3, it indicates proportion of independent commissioner (IND) has sig value of 0.917 and unstandardized beta value of 0.989. Sig value ≥ 0.05 , therefore since sig value is higher than alpha (α), this concludes that H12 is not supported. This means that there is no influence between proportion of independent commissioner (IND) and fraudulent financial reporting.

Based on t test result as shown on table 3, it indicates number of CEO's picture (CEOPIC) has sig value of 0.97 and unstandardized beta value of -0.024. Sig value ≥ 0.05 , therefore since sig value is higher than alpha (α), this concludes that H13 is not supported. This means that there is no influence between number of CEO's picture (CEOPIC) and fraudulent financial reporting.

CLOSING

The result on this research based on the conducted hypothesis test are three out of thirteen independent variables have influence on independent variables. The variables are financial

targets, nature of industry, and auditor's opinion. On the other hand, financial stability, external pressure, institutional ownership, number of audit committee members, ineffective monitoring, external auditor quality, the change of auditor, change of directors, proportion of independent commissioner, and numbers of CEO's picture do not have a significant influence on fraudulent financial reporting.

This research has several limitations, such as: 1) This research's data is not normally distributed, even though outlier data had been discarded after the outlier test. 2) There are three independent variables, which are institutional ownership, nature of industry, and auditor's opinion that have heteroscedasticity problem. 3) On this research, only 3 out of 13 independent variables that has an influence, which are financial target, nature of industry, auditor's opinion. 4) This research only uses F-score model to measure fraudulent financial reporting, while there are other measuring tools such as Beneish-M score and

Altman Z score to measure fraudulent financial reporting.

The recommendations of this research for future researcher are: 1) Overcoming the data that are not normally distributed can be done by increasing the sample size such as adding the time period or the industry sector. Another way is to do data transformation. 2) Overcoming heteroscedasticity problem can be done by doing data transformation. 3) The next research can change the independent variables that might have influence to the dependent variables. The example of those variables that are not on this research are Financial Distress, CEO politician, Personal Financial Needs, Asymmetric Information. 4) Measuring fraudulent financial reporting for the next research besides f-score model can also be done by using Beneish-M score, Altman Z score, qualitative method, or a mixture between these measurement tools to achieve a more accurate result.

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