

## Financial stability, Financial Target and External Pressure on Financial Fraud

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### ABSTRACT

The research summary is no more than 300 words containing the urgency, objectives and targeted outcomes. Audits are designed to provide assurance regarding the presentation of financial reports that do not contain material misstatements and provide confidence in management accountability. Material misstatements in financial statements are caused by incomplete or biased financial reporting or due to fraud being committed. The results released by ACFE in 2022 show that Indonesia is ranked 4th most fraudulent country in Asia Pacific. There were 23 cases of fraud in Indonesia, 6.7 percent of which were financial fraud. The biggest fraud comes from the financial sector. This shows that there are still management who commit fraud on financial reporting. Therefore, the aim of this research is to examine the influence of financial stability, financial targets and external pressure on financial fraud. This research will take data from types of manufacturing companies listed on the Indonesian Stock Exchange. The results show that financial stability has no influence on financial fraud, while financial targets and external pressurers have an influence on financial fraud..

**Keywords:** Financial Stability, Financial Targets, External Pressure, Financial Fraud

**JEL Classification:** E6, F40, G30

### INTRODUCTION

Financial reports present information on a company's financial transactions in carrying out its business that occur in one period. These financial transactions will provide information related to financial position, performance and changes in financial position which is useful for a large number of users in making decisions. However, in the process, sometimes companies interfere with financial reports in order to make a profit for themselves. This fraud usually occurs when a company reports higher than actual (overstates) assets or income, or when a company reports lower than actual (understates) liabilities and expenses. When a financial report contains elements of conditions, what is presented will circulate to the public in decision making and result in financial losses for users of the financial report because the financial information report does not convey the company's performance accurately, relevantly and free from conditions (Ashma and Laksmi, 2023)

The results released by ACFE in 2022 show that Indonesia is ranked 4th most fraudulent country in Asia Pacific. There were 23 cases of fraud in Indonesia, 6.7 percent of which were financial fraud. This shows that there are still management who commit fraud on financial reporting.

This type of fraud has very serious consequences for organizations because it will have implications for investors, company owners, regulators, auditors and the public (Albrecht et al, 2015). Therefore, companies can minimize the occurrence of fraud if the fraud can be defined. The theory used to understand the occurrence of fraud is the theory popularized by Donald Cressey and W. Steve

Albercht, namely the Theory of Fraud Triangle which states that fraud occurs when the perpetrator has opportunity, pressure and rationalization. This theory was developed, known as the Diamond Fraud Theory, which states that apart from the three things above, there are other elements that influence the occurrence of fraud, namely capability.

The method used by companies to minimize the occurrence of fraud is by conducting audits. Audits carried out by auditors aim to provide assurance that the financial reports presented by the company are in accordance with applicable standards and are free from misstatements. If there is a material misstatement error, the auditor will report the material error thereby reducing bias in the financial statement information. This shows the audit quality of an auditor.

Based on previous research, there are several factors that influence financial fraud. Factors that influence financial fraud are financial stability (Ashma and Laksmi, 2023); financial targets (Wahyuni et al, 2023) and external pressure (Wahyuni et al, 2023).

Based on the description above, it is necessary to carry out further research regarding financial statement fraud because there are several factors that influence financial statement fraud. One of the companies that committed fraud was PT. Delta. PT. Delta, as one of Indonesia's leading manufacturing companies, found itself entangled in a shocking accounting crime scandal. This scandal emerged when it was revealed that the management of PT. Delta has manipulated its financial statements to hide significant operating losses. Fraudulent practices carried out include inflating income, delaying the recognition of operational costs, and manipulating the valuation of company assets.

Therefore, researchers will conduct research on manufacturing companies by examining the influence of financial stability, financial targets and external pressure on financial fraud.

## METHOD

This research aims to examine the influence of corporate social responsibility, financial stability, financial targets and external pressure on financial fraud and audit quality as moderating variables.

The type of data in this research is secondary data in the form of financial reports for 2019-2023. The data source was obtained from the idx.co.id website or directly from the IDX representative office in Kupang City.

The population in this research are companies operating in the financial sector that are listed on the Indonesia Stock Exchange (BEI). The sample in this study used a purposive sampling method with the following criteria:

1. Companies registered on the IDX in 2019-2023
2. Companies that present financial reports in 2019-2023
3. Companies whose financial reports have been audited in 2019-2023
4. Companies that experience profits in 2019-2023
5. Companies that present financial reports use the rupiah currency

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**Independent  
Variable**

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**Information**

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Financial Stability	$CATA = \frac{\text{Operating Income} - \text{Cash flow from operations}}{\text{Total Assets}}$
	Nb: CATA : capital to total assets
Financial target	$ROA = \frac{\text{Net Profit}}{\text{Total Assets}}$
	Nb: ROA : Return on asset
External Pressure	$\text{Leverage} = \frac{\text{Total Hutang}}{\text{Total Debt}}$

Dependent Variable	Information
Financial Fraud	$Z_i = 6,56X_1 + 3,26X_2 + 6,72X_3 + 1,05X_4$
	Nb: Z <sub>i</sub> : Z score X <sub>1</sub> : working capital to total assets X <sub>2</sub> : Retained Earning to total assets X <sub>3</sub> : Earning Before Interest and Taxes (EBIT) to Total Assets X <sub>4</sub> : Market Value of Equity to Book Value of Total Liabilities

The analysis stages in this research start from descriptive statistical analysis, classical assumption testing (multicollinearity, autocorrelation and heteroscedasticity) then hypothesis testing to find out how the independent variable influences the dependent variable. Testing research hypotheses using multiple linear regression tests without moderation and multiple regression tests by including moderating variables.

This research will use multiple regression analysis to formulate the hypotheses that have been formulated in the research, with the following equation

$$FF = \beta_0 + \beta_1 CSR + \beta_2 SK + \beta_3 FT + \beta_4 EP + e \quad (\text{equation 1})$$

$$FF = \beta_0 + \beta_1 CSR * KA + \beta_2 SK * KA + \beta_3 FT * KA + \beta_4 EP * KA + e \quad (\text{equation 2})$$

- Nb:
- FF : Financial Fraud
  - $\beta_0$  : constant
  - $\beta_1..4$  : regression coefficient
  - CSR : Corporate Social Responsibility
  - SK : financial stability
  - FT : Financial Target
  - EP : External Pressure
  - KA : audit quality
  - e : error

## RESULTS AND DISCUSSION

The population used in this research is the financial reports of manufacturing companies listed on the Indonesia Stock Exchange. In determining the sample, this research used purposive sampling using certain criteria.

Sample Determination Criteria	Amount
Manufacturing companies in the basic materials sector listed on the IDX in 2019-2023	60
Companies that do not present financial reports in 2019-2023	3
Companies whose financial reports were not audited in 2019-2023	3
Companies that do not experience profits in 2019-2023	25
Companies that do not present financial reports use the rupiah currency	8
Companies whose financial statements do not end on December 31	7
Manufacturing companies in the sample	14

So the number of observations in this study is 14 times 5 years to 70.

The research was carried out using descriptive quantitative research methods by explaining the data obtained using multiple regression analysis. Researchers used the SPSS program to carry out several tests as follows

### Normality Test

#### One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		60
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.80097436
Most Extreme Differences	Absolute	.112
	Positive	.108
	Negative	-.112
Test Statistic		.112
Asymp. Sig. (2-tailed)		.057 <sup>c</sup>

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

Ghozali (2018) states that the Kolmogorov-Smirnov test can be used to test whether the residuals from a regression model are normally distributed. If the probability value (p-value) of the K-S test is greater than a certain significance level (for example, 0.05), then the data is considered to follow a normal distribution. If the p-value is less than 0.05, the data distribution is considered not normal. The test results show that the asymp. Sig is more than 0.05, so it can be said that the data is normally distributed, but the test results using 70 samples turned out to produce

abnormal data, therefore some abnormal data was removed so that the number of samples used for research was 60..

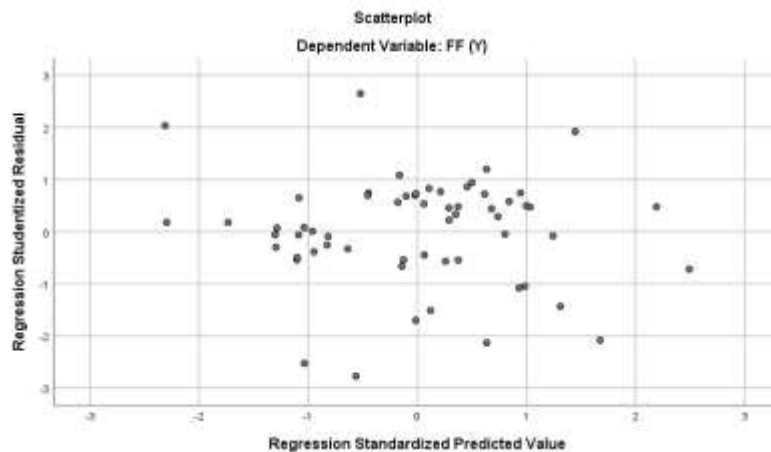
### **Multicollinearity Test**

Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error				Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	7.393	.164						
	SK (X1)	-.024	.086	-.278	.782	-.195	.148	.729	1.371
	FT (X2)	14.398	1.003	14.352	.000	12.388	16.408	.297	3.370
	EP (X3)	-7.656	.462	-16.573	.000	-8.582	-6.731	.262	3.813

Ghozali (2018) states that multicollinearity refers to a situation where there is a strong linear relationship between some or all of the independent variables in the regression model. Ghozali (2018) explains that high multicollinearity can cause the estimated regression coefficients to become unstable and unreliable, and reduce the model's ability to predict the dependent variable. The results show that there is no multicollinearity. This is shown from the results of statistical tests, namely the tolerance value is more than 0.1 and the VIF value is less than 10.

### **Heteroscedasticity Test**



Widarjono (2018) stated that scatterplots are an important first step in detecting heteroscedasticity. By plotting residuals against predicted values or independent variables, researchers can observe distribution patterns. If the pattern formed resembles a certain pattern, such as a fan or funnel shape, this indicates a heteroscedasticity problem. The test results show that there is no particular pattern, so the research data is not homoscedastic.

### Autocorrelation Test

#### Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.922 <sup>a</sup>	.849	.841	.82215	1.261

a. Predictors: (Constant), EP (X3), SK (X1), FT (X2)

b. Dependent Variable: FF (Y)

The autocorrelation test is a statistical method used to check whether there is a correlation between residual values in a regression model, especially a time series model. In the context of regression, the residual is the difference between the observed value and the value predicted by the model. The autocorrelation test using the Durbin Watson test of 1.261 shows that there is no autocorrelation in this study because the DW value is between 1.311 and 1.6889.

### Multiple Regression Test

#### Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	7.393	.164		44.945	.000
	SK (X1)	-.024	.086	-.017	-.278	.782
	FT (X2)	14.398	1.003	1.366	14.352	.000
	EP (X3)	-7.656	.462	-1.678	-16.573	.000

a. Dependent Variable: FF (Y)

Statistical tests using SPSS were carried out to find out whether the independent variable had a significant influence on the dependent variable. Based on the test results, it can be seen that financial stability does not influence financial fraud, while the financial target and external pressure variables influence financial fraud.

Financial stability has no influence on financial fraud, which means that when a company has financial stability, when the company can manage the company's operating income and cash flow well by adding new assets and reducing liabilities, it will ultimately increase the company's total assets. This is in line with research conducted by Anom et al (2020) which states that financial stability has no influence on fraudulent financial reports.

Financial targets have an influence on financial fraud, which means that when company management is pressured to achieve certain targets, there is a possibility that management will commit financial fraud. This is in line with the Fraud Triangle Theory which states that one of the causes of fraud is due to pressure. The results of this research are in line with research conducted by Muhammad Yunus et al (2019).

## Test R2

### Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.922 <sup>a</sup>	.849	.841	.82215

a. Predictors: (Constant), EP (X3), SK (X1), FT (X2)

b. Dependent Variable: FF (Y)

Ghozali said that  $R^2$  in linear regression calculated by SPSS shows the level of accuracy of the regression model in explaining the dependent variable. The  $R^2$  value reflects how much the dependent variable can be explained by the independent variable. The results of statistical tests show that 84% can be explained by financial stability, financial targets and external pressure, while 16% is explained by other variables outside this research.

## CONCLUSION

Financial fraud is a situation where the company or management commits fraud on financial reporting caused by several things, such as pressure from external parties (external pressure) and targets that must be achieved by company management or financial targets.

However, from these two things, there are actually several other factors that influence the occurrence of financial fraud because the research results show that 16% of the time there are other variables outside this research that influence the occurrence of financial fraud. Therefore, future researchers are expected to add other variables such as CSR and use moderating variables such as audit quality.

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