

## ANALYSIS OF FINANCIAL STATEMENT FRAUD DETECTION THROUGH FINANCIAL TARGETS AND EXTERNAL PRESSURES

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### Abstract

The purpose of this study is to respond to research gaps and inconsistencies in research findings by empirically testing how financial targets and external pressures affect the detection of financial statement fraud. The study utilizes a descriptive research design with a quantitative approach. A method of purposive sampling was used, focusing on companies listed on the Jakarta Islamic Index (JII) from 2019 to 2023. Statistical analysis was done using multiple regression analysis. The results show that financial targets have a significant effect on the detection of financial statement fraud, while external pressures do not have a significant effect. However, both financial targets and external pressures have a simultaneous effect on the detection of financial statement fraud. The practical implications, financial targets, and external pressures can have an impact on the detection of fraud within the organization. Under these conditions, fraud may be more difficult to detect because the organization's or individual's focus is more on achieving targets or meeting external expectations. Therefore, companies need to have a strong internal control system and independent audits to help identify and manage potential risks of financial statement fraud.

Keyword: *Financial Target; External Pressure; Financial Statement Fraud*

### A. INTRODUCTION

The phenomenon of accounting fraud scandals has become a crucial issue in various countries, including Indonesia (**Kompasiana.com, 2024**) This crime refers to the act of manipulating financial data to cover losses, fictitiously increase revenues, or deceive investors and shareholders about the financial health of the companies. Financial statement provide an overview of a company's financial status, either at a specific moment or over a set period. These statements represent a company's financial condition through numbers and accounts that describe its performance within a given period (**Kasmir, 2019**).

The Associations of Certified' Fraud Examiners (ACFE) categorizes fraud into three types; asset misappropriation, fraudulent financial reporting, and corruptions. A 2019 survey found that while financial statement fraud is the least common (6.7% of cases), it causes the largest financial losses (9.2%, with 22 reported cases) (ACFE, 2019). Despite its lower frequency, accounting fraud is the most prevalent type of fraud in cases with losses under Rp. 10,000,000. Financial statement fraud accounts for about 67.4% of fraud cases in this category.

As an example in Indonesia, the case that occurred in the Indo Farma Tbk (INAF) scandal and its subsidiaries in Indonesia in May 2024 is a recent example of this financial issue. The case has not only brought the company into disrepute but also caused significant losses to the state, estimated at Rp371.8 billion. Other Financial statement Fraud occurs in almost all types of companies, one of which is, in 2021, PT Kimia Farma Tbk fraud the case was a case of confusion regarding the use of COVID-19 antigen test kits, and that was the case in 2001 financial statement fraud case, by reporting overstated net income and containing elements of engineering. In addition, a case of financial statement fraud also occurred at PT Garuda Indonesia in 2018, which was caused because the financial statements audited by the auditors were not by the Statement of Accounting Standards (PSAK).

Fraud in financial statements is often driven by motivations and pressures from both internal and external sources. These pressures encourage individuals to manipulate financial report to present a more favorable image, attracting the attention of investors or potential investors. As a result, managers may use different tactics to portray better financial outcomes (**Septriani et al., 2018**). Fraud risks are commonly assessed using Cressey's "fraud triangle," which includes three key elements: opportunity, pressure, and rationalization. Over time, this model has evolved into the "fraud diamond," which adds "capability" as a fourth element, and later the "fraud pentagon," which includes "arrogance." In 2016, Georgios L. Vousinas

introduced the "fraud hexagon," which further expands the model by adding "collusion" as a sixth element (Desviana et al., 2020).

Failure to detect financial statement fraud adequately can result in significant losses, causing harm to various parties. Research by the Associations of Certified Fraud Examiners (ACFE) indicates that 83% of fraud cases are committed by business owners. According to Siswantoro (2020), one of the key factors in the fraud triangle theory that strongly drives individuals to commit fraud is pressure. In this study, the focus is on analyzing the pressure aspect, specifically examining two pressure conditions: financial targets and external pressures.


SAS No. 99 financial targets state that management sets the goals and earnings for the organization. As a result, management is under pressure to perform to meet the predetermined financial targets. According to SAS' No. 99, the second pressure's condition—external pressure—occurs when the business has a lot of trouble repaying its credit loans. things up so that it may continue to manipulate the company's financial accounts and be deemed capable of repaying the loan.

In this study, companies that are consistently listed in the Jakarta Islamic Index (JII) were selected as the subject of research because the JII is the most popular index compared to other similar indices. This is because the JII selects companies with the 30 best rankings in terms of Shariah compliance in the reviews conducted in May and December each year because they are considered more Islamic stocks (Fhilia. Auliyani., 2017).

The following is presented the condition of *financial targets* proxied by ROA, *external pressure* proxied by LEV, and *financial statement fraud* proxied by Beneish M-Score in companies listed on the Jakarta Islamic Index (JII) for the period 2019-2023.

**Table 1.** List of financial targets, external pressure' and financial statement fraud

KODE	TAHUN	ROA		LEV		BENEISH M SCORE	
ANTM	2019	0,05	-	0,40	-	-2,34	-
	2020	0,05	-	0,40	-	-2,25	↑
	2021	0,06	↑	0,37	↓	-2,72	↓
	2022	0,11	↑	0,30	↓	-2,35	↑
	2023	0,07	↓	0,27	↓	-3,13	↓
CPIN	2019	0,12	-	0,28	-	-2,26	-
	2020	0,12	-	0,25	↓	-3,09	↓
	2021	0,10	↓	0,29	↑	-2,23	↑
	2022	0,07	↓	0,34	↑	-2,39	↓
	2023	0,06	↓	0,34	-	-2,41	↓
ICBP	2019	0,14	-	0,31	-	-2,64	-
	2020	0,07	↓	0,51	↑	-2,81	↓
	2021	0,07	-	0,54	↑	-2,25	↑
	2022	0,05	↓	0,50	↓	-2,23	↑
	2023	0,07	↑	0,48	↓	-2,47	↓
INDF	2019	0,06	-	0,44	-	-2,77	-
	2020	0,05	↓	0,51	↑	-2,66	↑
	2021	0,06	↑	0,52	↑	-2,36	↑
	2022	0,05	↓	0,48	↓	-2,26	↑
	2023	0,06	↑	0,46	↓	-2,85	↓
KLBF	2019	0,13	-	0,18	-	-2,54	-
	2020	0,12	↓	0,19	↑	-2,95	↓
	2021	0,13	↑	0,17	↓	-2,49	↑
	2022	0,13	-	0,19	↑	-1,90	↑
	2023	0,10	↓	0,15	↓	-2,51	↓

Description :  = against the theory

There are still many inconsistencies between theory and actual outcomes, as seen in the above examples. According to theory, an increase in financial targets (ROA) should lead to a higher risk of financial statement fraud (Beneish M-Score). However, this was not observed in practice. For instance, PT Aneka Tambang (ANTM) saw an increase in ROA in 2021, yet the detection of financial statement fraud

decreased. The same pattern was observed with PT Charoen Pokphand Indonesia (CPIN), PT Indofood Sukses Makmur (ICBP), PT Indofood Sukses Makmur (INDF), and PT Kalbe Farma (KLBF). Additionally, while external pressure (leverage) is supposed to increase the risk of financial statement fraud, CPIN's leverage rose in 2022 without any corresponding increase in fraud risk (Beneish M-Score). The same trend was seen with CPBP and INDF.

There has been a great deal of research into the effect of financial target and external pressure on financial statements fraud, including research by Galih Raka Alfiano (2018), Ayun Mutia Sari (2019), and Raden Ajeng Shofiyah Kurniati (2020), Muhammad Devan Chandra Wijaya (2019), Devi Yunia Fujiati (2021), and Rina Wahyu Septiana (2022) but the results of their research still show differences. Therefore, this research was conducted to answer the inconsistencies in the results of previous research.

## B. LITERATURE REVIEW

### 1. FINANCIAL STATEMENT FRAUD.

Financial statements are records of a company's financial data for a specific accounting period, which can be used to assess the company's performance (Setiawan, 2022). When preparing financial statements, it is essential to follow Generally 'Accepted Accounting Principles (GAAP), which provide guidelines for financial reporting. Financial statement fraud refers to discrepancies or omissions in financial reporting where the presented information does not comply with the established accounting principles. According to SAS No. 99, financial statement fraud can occur through:

- The manipulations, falsification, or alteration of accounting' records and supporting documents.
- Intentional errors or omissions of significant' information in the financial statements.
- The intentional misuse of accounting principles related to amounts, classification, presentation, or disclosure.

### 2. PRESSURE ELEMENT PROXY

This study focuses solely on examining the pressure element. According to SAS No. 99, as cited in Pradana & Purwanti (2020), four types of pressure can lead to fraud: financial stability, external pressure, personal financial need, and financial targets. In this research, the variables under investigation are financial targets and external pressure.

#### a. Financial Target

Refers to the pressure on management to meet the financial goals set by the board or other levels of management. ROA (Return on Asset) is used as a profitability ratios to measure how effectively a company' generates profits from its assets.

#### b. External Pressure

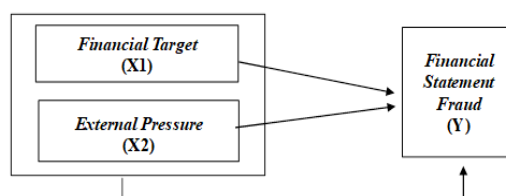
Involves the pressure management faces to meet the expectations of external parties. This's measured using the leverage ratio..

### 3. DETECTION OF FINANCIAL STATEMENT FRAUD

This study identifies financial statement fraud using the Beneish M-Score. According to Beneish as cited in Kurniati (2020), the M-Score is a mathematical model designed to detect earnings manipulation and financial statement fraud. It does so by analyzing eight financial ratios: Day Sales in Receivables (DSRI), Gross Margin Index (GMI), Asset Quality Index (AQI), Sales Growth Index (SGI), Depreciation Index (DEPI), Sales, General and Administrative Expenses Index (SGAI), Leverage Index (LVGI), and Total Accruals to Total Assets (TATA), along with the M-Score value.

## 4. THE CONCEPTUAL FRAMEWORK

Figure 1. The Conceptual Framework.



## 5 HYPOTHESIS

Based on the theory and the framework above, the hypotheses are:

- H1: financial targets have a significant effect on the detection of financial statement fraud
- H2: external pressure has a significant effect on the detection of financial statement fraud
- H3: financial targets and external pressure have a 'significant effect on the detection of financial

statements fraud

### C. RESEARCH METHOD

This study employs a 'descriptive research method with a quantitative approach. The population for the research consists of companies listed on the Jakarta Islam Index (JII) between 2019 and 2023. A purposive sampling technique was applied, selecting 10 companies over a 5-year research period, resulting in a total of 50 data samples. The data source used in this study is secondary data, which includes audited financial statements and annual reports published by the companies over five consecutive years. The data was analyzed using multiple linear regression.

### D. RESULTS AND DISCUSSION

#### 1. MULTIPLE REGRESSION TESTS

The results of multiple linear regression testing can be seen in table as follows.

**Table 6** Multiple Regression Test Results

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-2,258	,061		-36,774	,000		
	ROA	-1,128	,232	-,594	-4,853	,000	,374	2,672
	LEV	-,445	,177	-,307	-2,509	,016	,374	2,672

a. Dependent Variable: Y\_M\_SCORE

Source: IBM SPSS Statistics Output Data 25 version

Based on the tcst results of Table 4.9 above , a regresion equation can be formulated as follows:

$$Y = -2.258 -1.128ROA -0.445LEV + e$$

#### 2. HYPOTHESIS TEST

Hypothesis testing for the statistical test used is the t-test or simultaneous test, t-test as follows.

**Table7.**Partial Significant Test-Results (t-Test)

Table 7.11. Partial Significant Test Results (t-Test)						
Coefficients <sup>a</sup>						
		Unstandardized Coefficients		Standardized Coefficients	T.	Sig.
		B.	Std. Error.	Beta.		
1	(Constant)	-2,258	,061		-36,774	,000
	ROA	-1,128	,232	-,594	-4,853	,000
	LEV	-,445	,177	-,307	-2,509	,016
	a. Dependent Variable: Y M SCORE					

a. Dependen Variable: Y\_M\_SCORE

Source: Data Output IBM SPSS Statistics 25 version (Data processed 2024)

Table t value = t (a/2; n-k-1)

= t (0,05/2 ; 50-2-1)

= t (0,025 ; 47)

The value of t table = 2.012

#### 3. SIMULTANEOUS TEST(F-TEST).

**Table 8.** F-Test Results ANOVA.

Model.	Sum of Squares.	Df.	Mean Square.	F.	Sig.
1 Regression	5,695	2	2,847	65,614	,000 <sup>b</sup>
Residual	2,040	47	,043		
Total	7,734	49			

a. Dependen Variable: Y\_M.SCORE b. Predictors: (Constants), LEV, 'ROA

Source: DataOutput IBM SPSS Statistics 25 version (Data processed 2024)

F-table = F (k - 1; n - k)

$$= F(3-1; 50-3)$$

$$= F(2; 47)$$

$$= 3,195$$

#### D. DISCUSSION

The test results show that financial targets have a negative impact on financial statement fraud, indicated by a negative coefficient of 4.853 and a significance level of 0.000, which is below the 0.005 threshold for significance. This supports the acceptance of H1, which posits that financial targets significantly influence financial statement fraud.

Hypothesis testing results for external pressure show a t-count of 2.509 with a significance of 0.016. Since the significant value exceeds the 0.005 threshold, it indicates that external pressure doesn't have a significant effect on the potential for financial statements fraud, leading to the rejection of H1.

Based on the result of the simultaneous hypothesis test, the significance value is 0.000, which is smaller than the 0.005 threshold, and the F-count value is 65.614, which exceeds the F-table value of 3.195. These results confirm that both financial targets and external pressure simultaneously have a significant impact on financial statement fraud. Therefore, H3, which asserts that financial targets and external pressure significantly affect financial statements fraud in companies, is accepted.

#### E. CONCLUSION

Based on the research findings regarding the impact of financial targets and external pressure on financial statement fraud in companies listed on the Jakarta Islamic Index (JII) from 2019 to 2023, it was concluded that financial targets have a significant negative effect on financial statement fraud. As financial targets increase, the likelihood of fraud decreases, suggesting an inverse relationship. This highlights the importance of setting realistic financial targets to avoid creating incentives for fraud. Companies should strengthen internal controls, implement effective audit systems, and conduct regular risk assessments to identify and mitigate areas vulnerable to fraud.

In contrast, external pressure, when analyzed independently, doesn't have a significant impact on financial statement fraud. Factors such as shareholder demands, market expectations, or creditor pressures do not appear to directly influence the likelihood of fraud in financial reporting.

However, in the simultaneous analysis, both financial targets and external pressures were found to significantly affect financial statement fraud. Unrealistic targets and external pressures can create conditions that increase the potential for fraud, making detection more difficult. Therefore, companies should have strong internal controls and independent audits in place to help detect and prevent fraud, while managing internal and external pressures transparently and responsibly.

This study has limitations, including the use of only two proxies from the four types of pressures that can lead to fraud as cited in **Pradana & Purwanti (2020)**, so it is recommended that further research can add other proxies or use other proxies in proving financial statement fraud, such as F-Score, earnings management, or the use of restatement.

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