

## The Influence of Pressure in Detecting Financial Statement Fraud

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**Abstract:** This study examines the pressure factors that influence fraud on the financial statements of BUMN companies because of the case that happened to PT. KAI (Kereta Api Indonesia), which is one of the State-Owned Companies (BUMN) in Indonesia. To provide more comprehensive results, this study will investigate the effect of pressure from 3 pressure measurement theories in the company; external pressure, financial stability, and financial targets by using a different measurement proxy than before. The reason researchers use different measurement proxies is because to see how far the effects of each measurement of pressure on fraud in financial statements. Fraud research on the financial statements themselves is measured using the fraud score model (F-Scores). The population of this study is a State-Owned Enterprises (BUMN) from 2012-2016. The results show that (1) External pressure have positive effect on financial statement fraud with a significance value  $0,000 < 0,05$ , (2) Financial stability have negative effect on financial statement fraud with a significance value  $0,642 > 0,05$ , (3) financial target have negative effect on financial statement fraud with a significance value  $0,923 > 0,05$  in the State-Owned Enterprises on the Indonesia Stock Exchange (BEI) in 2012-2016.

**Keywords:** Financial Statement Fraud, Pressure, External Pressure, Financial Stability, Financial Target

### Introduction

Fraud on financial statements is an interesting issue for the case of PT. KAI, which is one of the State-Owned Enterprises (BUMN) and is not used in the presentation of financial statements. In its financial statements, the company recorded a profit of Rp.6.9 billion, after further research was carried out, the real facts were Rp.63 billion in losses. This error in reporting is one form of fraud that will affect investors and investors in looking at activities, fund allocation and company performance.

The act of fraud on the financial statements carried out by several people to get a certain profit or purpose by manipulating data that aims to mislead users of financial statements. This is in accordance with Rezaee (2005) fraud in financial statements is an attempt that is intentionally carried out by the company to deceive and mislead financial report users, especially creditors and investors by presenting the material value of the financial statements presented.

Fraud on financial statements that is often done by management aims to make the financial statements that will be presented to investors look good so investors will be interested in investing in the company. Fraud on financial statements was intentionally carried out by the company so that the company looked better than its competitors so that investors who were less careful would become victims of fraud.

The act of fraud on financial statements is based on several factors as stated by Cressey (1953) in Skousan et al. (2008) there are several factors that encourage someone to commit fraud based on the fraud triangle theory, one of which is pressure.

The pressure factor is a factor that is often encountered in fraudulent financial statements. Someone in a condition that is not depressed, will not commit fraud. The most frequent pressure is the pressure that comes from the finances of employee fraud, although there are still other pressure factors such as pressure from outsiders. Statement of Auditing Standards (SAS) No. 99 in the American Institute of Certified Public Accounting mentioning pressure occurs due to a form of pressure is external pressure, financial stability, and financial targets. Researchers use three conditions of pressure to detect fraud in financial statements.

External pressure is a condition when management gets excessive pressure to meet the wishes or expectations of third parties. Based on Sulhani and Aini (2017) research, external pressure has a significant positive effect in detecting fraud in the financial statements, meaning that the higher expectations of third parties such as stakeholders, the greater the pressure felt by the company so that expectations are realized. Excessive pressure will also increase when you have to meet the requirements for company debt. When the company's leverage increases, it will increase the occurrence of fraud (SAS NO. 99). Different research results conducted by Martantya and Daljono (2013) external pressure have a negative influence on financial report fraud. External pressure is measured by using LEV, is the ratio of total debt divided by total assets.

Financial stability is a condition of threatened financial stability or profitability of the company by the influence of the economy, industry and conditions of the company's operations. Suhaya (2017) found the results that financial stability had a significant positive effect on fraud in financial statements where the greater asset change (ACHANGE) because changes in large assets are thought to occur by fraud on financial statements, the indication that management is fraud on the financial statements will also increase. Research conducted by Sihombing (2014) states that companies that have small assets or have large assets but also large cash outflows, will have the opportunity to manipulate so that financial stability looks good. While the results of different studies conducted by Norbarani (2012) and Widiarti (2016) and the results of their research found that financial stability does not have a significant positive effect on fraud in financial statements. Measurement of Financial stability uses the asset change percentage proxy (ACHANGE).

Financial targets are conditions when management is under great pressure to meet the financial targets set by company directors and parties from management, including sales or intensive targets on profitability. Widiarti (2015) found the results that the financial target had a positive effect on fraud in the company's financial statements where corporate profits that met the target triggered the attention of investors to the company. To achieve the target set, the management will be encouraged to commit fraud so that the financial statements will be presented improperly when the profit generated by the company is low. Different research conducted by Tiffani and Marfuah (2015) found that financial targets negatively affect cheating on financial statements where the level of ROA that is targeted by the company does not affect the management to commit fraudulent actions in the company's financial statements. Measurement of Financial targets using ROA proxy, which is a comparison of profit to company assets.

This study examines the pressure factors that influence fraud on the financial statements of BUMN companies because of the case that happened to PT. KAI, which is one of the State-Owned Companies (BUMN) in Indonesia. To provide more comprehensive results, this study will investigate the effect of pressure from 3 pressure measurement theories in the company; external pressure, financial stability, and financial targets by using a different measurement proxy than before. The reason researchers use different measurement proxies is because to see how far the effects of each measurement of pressure on fraud in financial statements. Fraud research on the financial statements themselves is measured using the fraud score model (F-Scores). The reason researchers use this measuring tool is because not many have used the F-Scores measuring instrument to examine fraud in financial statements.

Cheating Financial statements according to Sihombing (2014) are intentions or omissions in financial statements that are presented not in accordance with generally accepted accounting principles. This negligence or gap is material in nature so that it can influence decisions that will be taken by interested parties.

The Association of Certified Fraud Examiners (The ACFE, 2014) says financial report fraud is the disclosure of a company's financial condition that is intentionally made wrong that can be done by eliminating a number of values in the financial statements that aim to confuse users of financial statements. Rezaee (2005) says financial accounting fraud is a deliberate attempt by companies to

deceive and mislead financial report users, especially investors and creditors, by presenting and engineering material value from financial statements.

Based on the above concept, it can be explained that fraudulent financial statements are intentionally carried out by companies to deceive or deceive users of financial statements. The only difference lies in the value being engineered. Sihombing (2014) said that the value engineered by the company is material, Rezaee (2005) argues the same as what Sihombing (2014) put forward by manipulating material value in the financial statements while The Association of Certified Fraud Examiner (The ACFE, 2014) argue how to cheat financial statements by removing a number of values in the financial statements. The emphasis here is financial statement fraud is a deliberate action taken by the company to deceive or deceive the users of financial statements by removing a number of values in the financial statements or engineering material value in the financial statements.

Arens (2008) argued that fraudulent financial statements are misstatements or deliberate disclosures with the intention of deceiving users of financial statements. Financial report fraud is carried out by overestimating value or increasing the value of profits from the actual and or by neglecting obligations and expenses. The fraud was deliberately carried out in an effort to reduce the company's income tax. The company may also deliberately lower the profit when the profit is high to form a profit reserve that can be used to increase future earnings.

According to Well (2011) the lack of financial statements covers several modes, including:

- a. Intentional loss of events, transactions, accounts, or other significant information as a source of financial statement presentation.
- b. Intentional loss of information that should be presented and disclosed relates to accounting principles and policies used in making financial statements.
- c. Falsification, alteration, or manipulation of financial records (financial records), supporting documents or business transactions.
- d. Incorrect or intentional application of accounting principles, policies and procedures used to measure, recognize, report

The four modes above are often carried out by people who cheat financial statements. Forgery of supporting documents or omission of transaction evidence is often carried out to trick auditors when conducting audits. Incorrect implementation of accounting principles is also carried out by management to commit fraud against company profits. These modes are enough for management to cheat on financial statements.

According to Tuanakotta (2010) in Widiyanti (2016) mentions the Committee of Sponsoring Organization (COSO) of The Treadway Commissions in conducting studies of financial report fraud and developing a taxonomy that might occur in all businesses. COSO identifies the fraud mode in several areas, as follows:

- a. Abuse of assets.
- b. Exceed the value of assets (other than accounts receivable related to fraud on revenue recognition).
- c. Recognize undue income.
- d. Loads / liabilities that are less served.
- e. Undue disclosure.
- f. Other possible techniques. Of the various possibilities of the occurrence of fraudulent financial statements, the more frequent reporting of income is the most common.
  - 1) Overstating Revenues
    - a) Fictitious Sales. This method is done by reporting sales that actually did not occur but were made there. This is done by making posts such as fictitious special purpose entities as sellers and falsifying supporting documents.
    - b) Premium Revenue Recognition. Company employees have recorded income when the buyer still orders. Not when the item has been sent.

- c) Recognition of Conditional Sales. Employees have recorded sales from transactions that have not been fully recorded because the company still has contingent liabilities.
  - d) Abuse of Cut-off Date of Sales. In order to increase income for the current period, employees move income from the past period to the current period.
  - e) Misstatement of the Percentage of Completion. When the contract is in progress employees can increase the percentage of completion of the contract so that income increases.
- 2) Overstating Sales
- a) Inventories. The usual method of inventory is inventory in the final inventory. If this serving is detected, the fraud perpetrator may reason that it is due to a miscalculation.
  - b) Account Receivable. There is an overstatement of accounts receivable due to understatement of allowance for uncollectible receivables or fraud on the final balance of trade receivables.
  - c) Property, Plant and Equipment. Fixed assets are not depreciated even though they have actually depreciated so that assets continue to become more serviceable

In the Statement on Auditing Standards (SAS) No. 99 (AU 316), entitled Consideration of Fraud in a Financial Statement Audit, under the auspices of the American Institute of Public Accountants (AICPA), there are two types of misstatements that are relevant to financial statement audits and auditor's consideration of fraud:

1. Misstatement that comes from misuse of assets called theft or embezzlement.
2. Misstatements originating from incorrect financial reporting referred to by intentional misstatement or removal of material value or disclosure designed to outwit users of financial statements.

Martantya (2013) states that pressure is the drive of people who commit fraud. Pressure can cover almost everything including lifestyle, economic demands, etc., including financial and non-financial matters. Shelton (2014) states that pressure is a person's motivation to commit fraud, usually based on financial burden. Pressure can also be said as the desire or intuition of someone who is forced to commit a crime.

According to Arens (2008) management or other employees feel pressure to commit fraud. The common pressure imposed by companies to manipulate financial statements is the decline in the company's financial prospects. Management cheated financial statements to maintain their reputation. SAS No.99 (2002) states that there are conditions that can encourage a person to commit fraud, namely external pressure, financial stability, and financial targets. The following is an explanation of the four conditions:

- 1) Financial stability is a condition when financial stability or profitability of a company is threatened by the economy, industry and operational conditions of the company.
- 2) External pressure is a condition when management gets excessive pressure to meet the wishes or expectations of third parties.
- 3) Financial targets are conditions when management gets excessive pressure to meet the financial targets set by the director and management, including sales or targets of intensive profitability.

### **Research Methodology**

This study aims to analyze the relationship between pressure and financial report fraud. This study uses quantitative methods as an approach to analyze research problems. The population in this study are all state-owned companies listed on the Indonesia Stock Exchange (IDX) on the official website [www.idx.co.id](http://www.idx.co.id) during the 2012-2016 period. The sample in this study were 15 state-owned companies listed on the Indonesia Stock Exchange (IDX). The dependent variable in this study is financial statement fraud which is measured using fraud score model (F-Scores). External pressure in this study

is proxied by leverage ratio (LEV). In this study, financial stability was proxied by the ratio of changes in total assets (ACHANGE). Return on Asset is used as a proxy for the target financial variables in this study.

### Result and Discussion

From the data of 60 State-Owned Enterprises from 2012-2016, descriptive statistics can be obtained as shown in the table below.

Table 1. Determinant Coefficient Test (Model Summary<sup>b</sup>)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.592a	.351	.323	.51274	1.951

a. Predictors: (Constant), Financial Target, Financial Stability, External Pressure

b. Dependent Variable: Financial Statement Fraud

Based on table 1 the determinant coefficient test produces a summary model with adjusted R Square of 0.323. This means that 32.3% of financial statement fraud variables can be explained by external pressure (LEVERAGE), financial stability (ACHANGE), and financial target (ROA) variables. The remaining 67.7% is explained by other factors not included in this research variable.

Table 2. Simultaneous Significance Test (F Test-ANOVA<sup>b</sup>)

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	10.080	3	3.360	12.780	.000a
Residual	18.666	71	.263		
Total	28.746	74			

a. Predictors: (Constant), Financial Target, Financial Stability, External Pressure

b. Dependent Variable: Financial Statement Fraud

Based on table 2 the simultaneous significance test above, it can be concluded that the sig value is 0,000. Sig 0,000 < 0,05, so it can be concluded that the independent variables in the form of external pressure, financial stability, and financial targets, together affect the dependent variable, namely financial statement fraud.

The equation of the multiple linear regression model shows the relationship between the independent variable and the dependent variable as follows:

$$FScore = 1,145 + (1,938)X1 + (0,086)X2 + (0,095)X3$$

The constant value obtained is 1.145, this shows that without the influence of independent or independent variables, namely external pressure, financial stability, and financial targets, the financial fraud statement is 1.145. Variable external pressure (X1) has a regression coefficient of -1,938. That is, if the external pressure variable increases by one unit, the financial fraud statement (Y) will decrease by -1,938. Regression coefficient variable of financial stability (X2) is -0.086. That is, if the variable financial stability increases by one unit, financial fraud statements (Y) will decrease by -0.086. The target financial variable (X2) has a regression coefficient of -0.095. That is, if the financial target variable increases by one unit, the financial fraud statement (Y) will decrease by -0.095.

External pressure has a positive effect on financial statement fraud. Based on the results of testing external pressure variables that are proxied by leverage against financial fraud statements (F-Score),

obtain a t value of equal to -5.199 with a significance of 0.000 less than 0.05. These results can be concluded that external pressure has a positive effect. The results of this study are in line with the research conducted by Tiffani and Marfuah (2015), Sulhaini and Aini (2017), Sihombing (2014), and Skousen et al. (2008) found that external pressure has a positive influence in detecting financial statement fraud.

These results can mean that pressure from third parties or external parties will make the manager depressed so that targets or requirements provided by third parties can be fulfilled even though by means of financial statement fraud. If the pressure or conditions set by the third viewpoint are too high, then the level of financial statement fraud will also be higher. However, if the pressure given by third parties is low, in the sense that the company is able to achieve the target or requirements provided by third parties, then financial statement fraud will not occur.

The results of this study are supported by SAS No.99 theory which states that excessive pressure from external parties causes the risk of financial statement fraud. Tiffani and Marfuah (2015) stated that external pressure is an excessive pressure for management to meet the requirements or expectations of third parties.

Financial stability has a negative effect on financial statement fraud. Based on the results of testing the variables of financial stability proxied by ACHANGE against financial fraud statements (F-Score), obtaining a t value of - 0.467 with a significance of 0.642 greater than 0.05. These results can be concluded that financial stability has a negative effect.

The results of this study are in line with the research conducted by Widiyanti (2016) and Norbarani (2012) found that financial stability has a significant negative effect on financial statement fraud.

The results of this study can mean that financial conditions that are influenced by the economic or industrial conditions of a country will not affect the level of financial statement fraud. This is because the company must have estimated how the economy was at the time, so that the company could estimate or predict what policy would be taken so that the level of stability of the company was maintained, so that the company would not conduct financial statement fraud when the company experienced instability because the company had estimated what happen.

Financial targets have a negative effect on financial statement fraud. Based on the results of testing the target financial variables proxied by ROA against financial fraud statements (F-Score), obtaining a t value of -0.097 with a significance of 0.923 greater than 0.05. This result can be concluded that the financial target has a negative effect. The results of the study differ from those of Widarti (2015) and Norbani (2012) which prove that financial targets have a positive effect on financial statement fraud.

This means that if the pressure given by the director to reach the company's target is too high so that it exceeds the performance limits of the managers, this will result in more and more pressure on the managers to achieve the targets set by the director, so that this will trigger a higher level of financial statement fraud. However, if the pressure given by the director is not too high or does not exceed the performance limits of managers, financial statement fraud will not occur.

Tiffani and Marfuah (2015) stated that the amount of ROA is still considered reasonable and can be achieved by the company. The manager did not assume that the ROA was a difficult target to achieve, so the amount of ROA did not trigger financial statement fraud by management.

## **Conclusion**

This study aims to measure the effect of pressure on financial fraud statements on State-Owned Enterprises listed on the Indonesia Stock Exchange in 2012-2016. Based on the data that has been collected and which have been tested on the problem using multiple regression models, it was found that the independent variables together influence the dependent variable with a value of sig 0,000 <0.005. For statistical tests, it can be concluded as follows: External pressure has a positive effect on financial fraud statements on manufacturing companies in the State-Owned Enterprises on the Indonesia Stock Exchange (BEI) in 2012-2016. Financial stability and financial targets have a

negative effect on financial fraud statements on manufacturing companies in the State-Owned Enterprises on the Indonesia Stock Exchange (BEI) in 2012-2016.

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