Financial Distress, Fraud Reasons, and Fraudulent Financial Reporting Indication

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Abstract. The aim of this research is to observe the financial distress and fraud reasons towards the indication of fraudulent financial reporting during the 2018–2020 period, that is before and during the occurrence of the COVID-19 pandemic. Fraud reasons consist of pressure, opportunity, rationalization, competence and arrogance. The sample used consists of 80 manufacturing companies listed in Indonesia Stock Exchange (IDX). This analysis utilizes multiple linear regression. The data is processed using Statistical Product and Service Solutions (SPSS 26). The result shows that opportunity, rationalization, and arrogance have a positive impact towards fraudulent financial reporting. Financial distress, pressure, and competence have no effect towards fraudulent financial reporting.

Keywords: financial distress · fraud reasons · fraudulent financial reporting

1 Introduction

The COVID-19 pandemic first entered Indonesia in March 2020 and caused by its advent in China during late 2019. This plague has spread so rapidly to various countries that the World Health Organization (WHO) has declared it as a global pandemic. The appearance of this virus in Indonesia has impacted the economic sector, including manufacturing sector among many other.

Business then had the very good opportunity and learning to face and anticipate the possibility of the same happening in the future. Business should seize the opportunity in the imminent future. The existence of economic pressure on one hand and the expectation to maintain the company's operation potentially cause the possibility of financial statements being falsely or fairly presented.

Financial statement can function well in presenting information and economic value to its users if it is presented according to its qualitative elements. These qualitative characteristics according to Conceptual Framework for Financial Reporting are relevance, faithful representation, comparable, verifiable, timely and understandable. On the other hand, a financial statement that contains falsehood in a material manner and the omitting of fact will cause the financial information to be irrelevant and misleading. Financial report such as this indicates the occurrence of a fraudulent financial reporting.

The two primary reasons that cause the occurrence of financial reporting falsehood are the company owner's expectation towards the management regarding target as well as

P. Susanto et al. (Eds.): PICEEBA 2022, AEBMR 250, pp. 5–22, 2023.
https://doi.org/10.2991/978-94-6463-158-6_2

internal management weaknesses (Ruankaew, 2013). The expectation given by the shareholders towards the management to perform the company's operational duty, specifically towards reaching the set target can trigger management to evade. A weak company's internal management can create the opportunity for management to continuously evade and cause bankruptcy for the company (Abdulahhi et al., 2015).

According to fraud pentagon theory, fraud reasons or factors which promote fraudulent financial reporting are pressure, opportunity, rationalization, competence, and arrogance. Fraud pentagon theory was invented by Crowe in 2011 as the development from fraud triangle theory by Cressey and fraud diamond theory by Wolfe and Hermanson.

Manufacturing companies conduct production activity continuously. According to ACFE (2020), manufacturing industry ranks second as the most fraudulent industry. The percentage of falsified financial statement that is suffered by manufacturing companies is 18%, making it the second largest after construction sector with 25%. An example of account reporting that is vulnerable to fraud is supply account and uncollected debt.

The research regarding this topic has been carried out several times in Indonesia by Yossi & Desi (2018), Siska & Linda (2017), Erma & Ratih (2018), Annisya & Asmaranti (2016), and Ulfah et al. (2017). The result of the research was varied. Variables which do have effect are pressure (Yossi & Desi, 2018), (Erma & Ratih, 2018), (Annisya & Asmaranti, 2016), and arrogance (Siska & Linda, 2017), (Erma & Ratih, 2018), (Ulfah et al., 2017). While opportunity (Siska & Linda, 2017), (Erma & Ratih, 2018), (Annisya & Asmaranti, 2016), (Ulfah, 2017). rationalization (Erma & Ratih, 2018), (Annisya & Asmaranti (2016), and competence (Yossi & Desi, 2018), (Siska & Linda, 2017), (Erma & Ratih, 2018), (Ulfah et al., 2017) have no effect to fraudulent financial reporting.

It becomes interesting to conduct similar research at this time by adding the variable of financial distress because the manufacturing sector is one of the negatively impacted sectors in this pandemic or have the potential to experience financial distress which could lead to fraudulent financial reporting indication. The researchers gathered data from the year of 2018 and 2019 to observe the condition of companies before the pandemic and data from the year 2020 to observe the condition of companies during the pandemic.

This research is expected to be able to help investors and management to monitor financial reporting after the pandemic by noting the importance of noticing the factors which potentially promote the creation of fraudulent financial statements.

2 Theory Literature

2.1 Agency Theory

Agency theory is a form of contract that involves one or more people, in this case principal employs another person (agent) with the purpose of providing a service and delegating the agent regarding the right of making the appropriate and best decisions for the principal (Jensen and Meckling, 1976).

The principal can be assumed to wish a high return of investment which has been exerted, meanwhile agent has a goal in the form of a bigger compensation for their work. This shows the existence of a clash of interest between the principal and the agent (Amara, Amar, & Jarboui, 2013).

This agency conflict is caused by two issues, which are the difference in goal between the agent and the principal, as well as the inability for the principal to make sure that the agent acts accordingly (Eisenhardt, 1989). With this occurrence of informational asymmetry between the two parties, it indirectly presents an opportunity for the agent to conceal information which are unknown by the principal for specific reasons and their own gain.

Messier, et al. (2006) expounded that the issue caused by the agentic relationship can be categorized into two, which are information asymmetry and conflict of interest. Information asymmetry is marked by the surplus of information possessed by the agent as compared to the principal regarding the financial position and owner's entity, while conflict of interest is caused by the difference between the desired goal of the management and the principal. Conflict of interest arises between the expectation of investor to gain the maximum amount of return and the manager's hope can cause the management, who is expected to run the company optimally for the sake of the investors, to prioritize their own personal gain instead. This is often called as a moral hazard.

2.2 Fraud

ACFE 2016 defines fraud as an act of deception or misrepresentation made by a person or a body who is aware that the misrepresentation can cause several unwelcome effects towards an individual or an entity or another party. Fraud consist of asset misappropriation, corruption and fraudulent misstatement. Asset misappropriation can be done in the form of a misappropriation or a company's asset/property theft which possesses the attribute of being tangible. Corruption is commonly done by a person involving another party (collusion). Several examples of an act of corruption are the abuse of authority, bribery, as well as receiving an illegal gift and economic extortion. Fraudulent misstatement can be exemplified by the fabrication of a financial statement which was done with the intention to gain personal profit. (ACFE, 2018).

Tuanakotta (2013) expounded that every illegal act is marked by the existence of a deception, concealment, or violation against a certain trust. This act is not dependent upon the implementation of violent threats or physical strength. Deception can be carried out by an individual as well as an organization to gain money, property, or service to secure personal gain over business.

2.3 Financial Distress

According to Platt and Platt (2002), financial distress is the decline of a company's financial condition before bankruptcy or liquidation. Company could suffer a negative net profit for several years (Whitaker, 1999).

The economic situation within a certain company always experiences growth and decline during certain times. With the existence of this condition, it will affect the financial liquidity of the company. When the financial condition declines, the company will tend to suffer the inability to manage its finance (financial distress) even to the point of bankruptcy. This phenomenon can be linked with the COVID-19 pandemic which continues to this day. This research will use Altman Z-Score method to predict the financial health of a company and the probability of suffering bankruptcy. The higher the Altman Z-Score value is, the bigger the financial distress score it indicates.

2.4 Fraud Reasons

Fraud reasons are the motives which underlie how a certain company can carry out financial reporting frauds. Fraud reasons can be measured according to the fraud pentagon theory (Crowe, 2011). The addition of new elements (competence and arrogance) is important because of the current condition when fraud occurs in an informational technology condition that is complex and hard to express.

Below are the explanations of the elements included within the fraud pentagon theory according to the theory developed by Crowe (2011). The method of measurement was taken from a research done by Apriliana and Agustine (2017), Septriani and Handayani (2018), Setiawati and Baningrum (2018).

1. Pressure

Pressure explains how the principal wishes a good company performance so that the agent strives to give a positive signal in the form of an increase in company's performance. The company's management attempts, by all means, to achieve the intended operational growth by the owner of the company. The unstable economic condition of a certain company or organization will case the managers to face a form of pressure to carry out an act of fraudulent financial reporting. An example of which is the pressure caused by the economic instability during the COVID-19 pandemic.

This research utilizes financial target as the proxy of pressure. Financial target is the profit set by the company which will have the management do various methods of ensuring that the financial statement appears appealing in the eyes of external parties. Financial target is measured by using return on assets, which is the comparison between net profit and the company's total asset. The higher the ROA value is, the higher the pressure score is.

2. Opportunity

Opportunity explains about the existence of information asymmetry between the investors and the management. Management is more regarding about the condition of the entity compared to the owner which creates opportunities for the management to manipulate the financial statement. The existence of management domination by one party without any control from the ineffective board of directors and audit committee's can give opportunities for the perpetrator to manipulate the financial statements' data.

This research will measure opportunity by calculating the difference between the total sum of independent board of commissioners and the total sum of board of commissioners. The bigger the difference in value is, the smaller the opportunity score is.

3. Rationalization

Rationalization is an attitude of justification towards a fraudulent act committed. The management justifies dishonest acts made by the company. The working environment may make the management side to justify acting dishonestly. A form of rationalization that can be performed by the perpetrator is rationalization of subjective evaluation.

In this research, the proxy of rationalization is the total accrual ratio towards the total of company's asset to illustrate the use of accrual principle. Current asset, current liability, operational cash flow, depreciation expense and amortization can illustrate the management of profit which is included in the financial statement. The bigger the ratio of total accrual to total asset is, the bigger the rationalization score is.

4. Competence

Competence can be explained as the management's ability to carry out a fraud, ignoring internal control, developing concealment strategy, and controlling social circumstances for their own gain. Managerial position and function within a company can present the ability to create or take advantage of opportunities to execute a fraud.

This research will measure the frequency of directorial change within a company. The more frequent a company perform a directorial change, the higher the competence score is.

5. Arrogance

Arrogance explains management's sense of superiority over the authority they possess and the belief that internal control as well as the company's policies do not apply to them. Arrogance can spark the occurrence of a financial statement fraud by means of utilizing and taking advantage of the maintained authority.

This research will measure the amount of directors who double as a CEO and a member of the board of commissioners. The higher the number of its occurrence is, the higher the arrogance score is.

2.5 Fraudulent Financial Reporting

Fraudulent financial reporting is a form of the intentional addition or omission of information which is intended to be presented in a financial statement, rendering the financial statement misleading in decision making. There are lots of cracks in a financial statement which can provide the room for management to perform discretionary accrual which potentially leads to fraud in a financial statement. ACFE 2016 explains that intentionally made discrepancies of a company's financial situation by means of intentional misrepresentation or the subtraction of an amount that is material in nature or exposition within a financial statement with the purpose of deceiving the financial report's users can be defined as a financial statement fraud.

An example of a commonly performed misrepresentation is over exaggerating the amount of asset, selling, profit, as well as subtracting the amount of liabilities, expenses, and losses (Noble, 2019). This is one of the examples of misrepresentation which is commonly done by a company to heighten the asset value and profit. Watts and Zimmerman (1986) stated that profit management occurs when the manager has discretionary behaviors linked with accounting numbers with or without limits and these behaviors can be adopted to maximize a company's value.

In this research, financial reporting fraud will have profit management as its proxy, which is calculated with discretionary accrual value using a model which was introduced by Jones and adjusted by Dechow et al. (2011). Jones' model initially assumed that discretion is not done towards profit both within the estimation period or incidental period. The modification of Jones' model assumes that every changes in credit sales within the incidental period come from profit management. It is easier to manage profit by applying discretion as the recognition over credit sales revenue as opposed to managing profit by applying discretion as the recognition over cash sales revenue. This pattern is deemed more suitable when a large amount of companies has applied sales with credit as opposed to cash.

3 Fundamental of Research Question

Financial distress is a condition where a company is unable to pay the existing debts and can trigger the company's financial department to fix or even manipulate the its financial statement. Jensen and Meckling (1976) stated that agent as the investment fund manager and the party responsible for the continuity of the company will always strive to display the best condition of the company so that principal will continue to invest their fund for the company. The company manager who during a harsh condition tends to commit fraud to conceal the company's declining performance. They tend to enjoy revenue recognition that is inaccurate and manipulating expenses, liabilities, and account receivable. Researches by Dalnial et al. (2014), and Bisogno and Luca (2015) state that there is a significant correlation between financial distress and fraudulent financial reporting.

H1: Financial distress positively affects fraudulent financial reporting.

Financial target is the form of profit over business which is desired by the company. Financial target has a relation with the agency theory which explains the relation between an agent and a principal. The target which has been achieved by the company in the previous year will set the bar to be as high or higher in the future.

The emergence of this demand to reach a financial target can cause the existence of pressure from the principal. The higher the pressure experienced by the company is, the higher the chance of the occurrence of fraudulent financial reporting is. Rahman (2011) has proven that pressure significantly impacts fraudulent financial reporting.

H2: Pressure positively affects fraudulent financial reporting.

The occurrence of fraud is the consequences of a weak company monitoring, which creates an opportunity for the manager to cheat (Sambera and Meiranto, 2013). Agency theory promotes the effectivity of monitoring done by the principal so that entity can operate well. Ineffective monitoring can occur in the financial reporting process and other similar processes because the existence of management domination, the ineffective board of commissioners monitoring and audit committee.

Independent board of commissioners is believed to support the increase of corporate monitoring's effectiveness. The more effective the monitoring done, the lower the chance of fraudulent financial reporting occurring is (Rahman, 2011). Skousen et al. (2008), Sihombing & Rahardjo (2014), and Tiffani & Marfuah (2015) also proved the sizable impact that opportunity has towards the occurrence of fraudulent financial reporting.

H3: Opportunity positively affects fraudulent financial reporting.

Rationalization is a self-justification by seeking various reasons to support the act of cheating committed. The act of earnings management is the beginning of the development of fraud in financial reporting. Earnings management is a consequence of the utilization of the accrual principle in writing a financial statement. The accrual principle is agreed as the foundation of a financial statement because it is fairer and rational.

On the other hand, the accrual principle can be tuned to modify the profit made so that it constitutes as an act of fraud in financial reporting. Francis and Krishna (1999) and Vermeer (2003) have proven that rationalization significantly contributes towards fraudulent financial reporting.

H4: Rationalization positively affects fraudulent financial reporting.

Change of directors could cause a stress period that has the effect of creating a bigger window of opportunity and increase competence to carry out a fraud, Wolfe and Hermanson (2004). This change is assumed to be able to reduce performance effectiveness since the entity requires more time to familiarize with. Ruankaew (2013) and Saputra (2016) have proved that a change of directors positively affects fraudulent financial reporting.

Saputra (2016) stated that a change of directors can cause a condition which creates opportunities to gain a desired boon. A company's change of directions is closely related to the interest of certain parties that brings about a clash of interests.

H5: Competence positively affects fraudulent financial reporting.

Arrogance is an act of superiority over the possessed authority and a feeling which company policy as well as internal control do not apply over oneself. If an individual possesses a high level of arrogance, it creates the possibility of committing a fraud.

There are five elements of arrogance, which are: a high ego when the CEO is viewed more as a celebrity than an entrepreneur who can penetrate the company's internal monitoring and not get caught. They have a pressuring attitude, they implement an autocratic management style, and they fear of losing their position or status. Dualism position by CEO who also serves as a member of the board of commissioners potentially causes them to further show their arrogance as the most important figure and can do anything. Hasnan et al. (2013) has proven that arrogance has a positive effect on fraudulent financial reporting.

H6: Arrogance positively affects fraudulent financial reporting.

4 Research Method

4.1 Dependent Variable

Fraudulent financial reporting is measured using profit management, as its dependent variable. Profit management has discretionary accruals (DA) as its proxy, to calculate the difference of total accruals (TA) and non-discretionary accruals (NDACC) using the model introduced by Jones (1991) which has been modified by Dechow et al. (2011).

4.2 Independent Variable

Independent variables used are financial distress and fraud reasons, which consists of pressure with financial target as its proxy, opportunity with ineffective monitoring as its proxy, rationalization with total accruals ratio as its proxy, competence with change in directors as its proxy, and arrogance with dualism position as its proxy (Table 1).

4.3 Regression Equation

$$\begin{aligned}\text{DAit} = &\beta_0 + \beta_1\,\text{FD} + \beta_2\,\text{ROA} + \beta_3\,\text{BDOUT} + \beta_4\,\text{TATA} \\ &+ \beta_5\,\text{DCHANGE} + \beta_6\,FD + \varepsilon\end{aligned}$$

Note:

DAit	= Fraudulent Financial Reporting
β_0	= Constant
FD	= Financial Distress
ROA	= Return On Asset
BDOUT	= Ineffective Monitoring
TATA	= Total Accruals Ratio
DCHANGE	= Changes in Directors
DP	= Dualism Position
ε	= Error

4.4 Data Analysis Technique

The analysis utilizes statistical descriptive and multiple linear regression model and being processed by using SPSS 26 (Statistical Product and Service Solutions). The sample gathering uses a purposive sampling technique. Data collected by using a secondary data source obtained from Bloomberg, which is subsequently rechecked in each company's financial statements.

5 Result and Discussion

5.1 Research Object Description

The object used in this research is every open manufacturing sector company which is registered in Indonesia Stock Exchange (IDX), which publishes yearly financial statements consecutively within the 2018 – 2020 period. From 133 manufacturing companies which fits the sample criteria, there are 53 data observations which were omitted from the sample because they are considered as outliers in the research, causing them to be unable to be used as part of the sample in this research. The utilized research sample total is 80 samples, with each of them spanning 3 years and amounting to 240 samples within the 2018–2020 period.

Table 1. Operational Variable Definition

Variable	Operational Definition
Fraudulent Financial Reporting (Watts and Zimmerman, 1986)	A form of the intentional addition or omission of information in a financial statement. $DA_{it} = TAC_{it} / A_{it-1} - NDA_{it}$
Financial Distress (Platt & Platt, 2002)	The decline of a company's financial condition before bankruptcy or liquidation. Altman Z-Score Model: $Z = 1.2A + 1.4B + 3.3C + 0.6D + 1E_5$ Note: A = Working capital / total asset B = Retained earnings / total asset C = EBIT / total asset D = Market cap / total liability E = Sales / total asset
Financial Target (Crowe, 2011)	The profit set by the company which will have the management do various methods of ensuring that the financial statement appears appealing in the eyes of external parties. $ROA = \frac{Net\ Profit}{Total\ Asset}$
Ineffective Monitoring (Crowe, 2011)	The existence of information asymmetry between the investors and the management. $BDOUT = \frac{Sum\ of\ Independent\ Board\ of\ Commissioners}{Sum\ of\ Board\ of\ Commissioners}$
Total Accruals (Crowe, 2011)	An attitude of justification towards a fraudulent act committed. The proxy of rationalization is the total accrual ratio towards the total of company's asset to illustrate the use of accrual principle. $TATA = \frac{Working\ Capital - Cash - Current\ Tax - Depreciation}{Total\ Assets}$
Change in Directors (Crowe, 2011)	The management's ability to carry out a fraud, ignoring internal control, developing concealment strategy, and controlling social circumstances for their own gain. Code equals 1 if a change of directors occurred and 0 if otherwise (dummy variable)
Dualism Position (Crowe, 2011)	Management's sense of superiority over the authority they possess and the belief that internal control as well as the company's policies do not apply to them. Code equals 1 if a dualism position occurs and 0 if otherwise (dummy variable)

5.2 Descriptive Statistical Analysis

According to Table 2, it is observed as follows.

1. Dependent variables such as fraudulent financial report which uses profit management as its proxy has a mean of -0.4507. According to this calculation, the mean for the year of 2018 is equal to -0.5444, meanwhile the mean for the year 2019 is equal to -0.4550, and the mean for the year 2020 is equal to -0.3526. This data shows that in the span of 3 years, the fraudulent financial report variable has a negative value, which can be interpreted as manufacturing companies having a low rate of fraud.
2. The financial distress variable which has Altman Z-Score model as its variable has a mean of 2.6913. The achieved standard deviation score is 1.4319. The financial distress variable, which is measured using Altman Z-Score Model has a mean of 2.6913 higher than the standard deviation score of 1.4319. It indicates the existence of a more homogenic data. The mean score of 2.6913 shows that the manufacturing companies used in this research lie in the grey area because the Z score is higher than 1.2 and lower than 2.9 ($1.2 < Z < 2.9$). This number shows that the companies of this research sample experienced a financial distress during the 2018–2020 period.
3. The pressure variable which has financial target as its proxy and measured using ROA (Return on Assets) has a mean score of 0.0214. According to the calculation result, the mean for the year of 2018 is equal to 0.0326, meanwhile the mean for the year 2019 is equal to 0.022, and the mean for the year 2020 is equal to 0.0095. This data shows that during the span of 3 years, the pressure variable which has financial target as its proxy decreases from year to year, even nearing zero.
4. The opportunity variable which has ineffective monitoring as its proxy has a mean score of 0.4438. According to the calculation result, the mean for the year of 2018 is equal to 0.4330, meanwhile the mean for the year 2019 is equal to 0.4385, and the mean for the year 2020 is equal to 0.4596. This data shows that during the span of 3 years, the monitoring done by the board of commissioners grew more effective.
5. The rationalization variable which has total accruals ratio as its proxy has a mean score of 1.4889. According to the calculation result, the mean for the year of 2018 is equal to 1.47, meanwhile the mean for the year 2019 is equal to1.49, and the mean for

Table 2. Descriptive Statistical Analysis

	N	Min	Max	Mean	Std. Dev
Fraudulent Financial Reporting	240	-1.29	0.28	-0.4507	0.2576
Financial Distress	240	-0.96	7.23	2.6913	1.4319
Pressure	240	-0.19	0.15	0.0214	0.0502
Opportunity	240	0.10	0.96	0.4438	0.1998
Rationalization	240	-9.35	7.40	1.4889	2.2306
Competence	240	0	1	0.50	0.501
Arrogance	240	0	1	0.07	0.257
Valid N (listwise)	240				

the year 2020 is equal to 1.52. This data shows that these manufacturing companies grew more rational during the 2018–2020 period.

6. The competence variable which has change in directors as its proxy using a dummy variable which is the code 1 if there exists a change in directors and the code 0 if otherwise, meanwhile its mean score is 0.50. The mean for the year of 2018, 2019, and 2020 is 0.50. This shows that during the 2018–2020 period, manufacturing companies experienced a change in directors as large as 50%.
7. The arrogance variable which has dualism position as its proxy using a dummy variable which is the code 1 if there exists a dualism position and the code 0 if otherwise, meanwhile its mean score is 0.07. According to the calculation, the mean score for the year of 2018 is 0.075, meanwhile the mean score of the year 2019 is 0.075, and for the year 2020 it is 0.0625. This shows that the amount of manufacturing companies in the 2018–2020 period which committed dualism position decreases.

5.3 Classic Assumption Test

Classic assumption tests are used to see if the utilized regression model fits the criteria to indicate whether or not the independent variable affects the dependent variables.

1. **Normality Test**

According to Table 3, it is observable that the data distribution has behaved normally since Asymp. Sig. (2-tailed) is higher than 5% (0.05) which is at 0.200.

2. **Autocorrelation test**

Table 3. Normality Test

One-Sample Kolmogorov- Smirnov Test		
		Unstandardized Residual
N		240
Normal Parameters	Mean	0.00000000
	Standard Deviation	0.24268561
Most Extreme Differences	Absolute	0.048
	Positive	0.048
	Negative	-0.026
Test Statistic		0.048
Asymp. Sig. (2-tailed)		0.200[c]

Table 4. Autocorrelation test

Durbin Watson Value	2.044	Autocorrelation did not occur

Table 5. Multicollinearity Test

Research Variable	TV	VIF	Note
Financial Distress	0.670	1.492	Multicollinearity does not occur
Pressure	0.697	1.474	
Opportunity	0.964	1.038	
Rationalization	0.830	1.206	
Competence	0.929	1.077	
Arrogance	0.911	1.097	

Table 6. Heteroscedasticity Test

Research Variable	Sig	Note
Financial Distress	0.881	Heteroscedasticity does not occur
Pressure	0.879	
Opportunity	0.232	
Rationalization	0.541	
Competence	0.082	
Arrogance	0.258	

It is observable that the Durbin-Watson value is 2.044 with dU equaling to 1.820 and (4-dU) at 2.180. So it can be concluded that no autocorrelation occurred (Table 4).

3. **Multicollinearity test**

According to Table 5, it is observable that every tolerance value is above 0.10 and the VIF below 10, thus no independent variable correlates with another variable and multicollinearity did not occur.

4. **Heteroscedasticity test**

According to Table 6, it is observable that every significance value is higher than 0.05, so no heteroscedasticity occurred in any independent variable.

5.4 Model Feasibility Test

This research utilizes the model feasibility test to determine whether or not the regression model is acceptable for a hypothesis test, includes F test and R^2 test.

1. **F test**

Table 7. F Test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression Residual Total	1.793 14.076 15.869	6 233 239	0.299 0.060	4.946	0.000

Table 8. R^2 Test

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	0,405	0,164	0,142	0,24850

It is observable that the calculated F value of 4.946 > table F 2.253 with the significance of 0.000 which means that it is less than 0.05, so the independent variables simultaneously affect the dependent variables (Table 7).

2. **R^2 test**

According to Table 8, it is observable that the adjusted R^2 value is 0.142. The financial distress and fraud reasons can only explain the fraudulent financial reporting variable by 14.2% and the rest of 85.8% is explained by other variables.

5.5 Partial T Test

The research utilizes the T test to determine the extent of individual impact which one explanatory/independent variable has in explaining the dependent variables. If the t significance value < the significance rate of 0.05 ($\alpha = 5\%$), then the independent variables partially affects the dependent variable (Table 9).

Table 9. T Test

Model	Unstandardized Coefficients B	t	Sig.
Financial Distress	0.114	1.510	0.132
Pressure	-0.272	-3.626	0.000
Opportunity	0.155	2.469	0.014
Rationalization	0.140	2.068	0,040
Competence	-0.165	-2.576	0.011
Arrogance	0.165	2.559	0.011

It is observable that:

1. Financial Distress (X_1) has a value at 0.132, calculated T of 1.510 < table T 1.967 and B = 0.114. Thus, the Financial Distress (X_1) variable does not affect the dependent variable and H_1 hypothesis is rejected.
2. Pressure (X_2) has a value at 0.000, calculated T of |-3.626| > table T 1.967 and B = -0.272. Thus, the Pressure (X_2) variable does not affect the dependent variable and H_2 hypothesis is rejected.
3. Opportunity (X_3) has a value at 0.014, calculated T of 2.469 > table T 1.967 and B = 0.155. Thus, the Opportunity (X_3) variable positively affects the dependent variable and H_3 hypothesis is accepted.
4. Rationalization (X_4) has a value at 0.040, calculated T of 2.068 > table T 1.967 and B = 0.140. Thus, the Rationalization (X_4) variable positively affects the dependent variable and H_4 hypothesis is accepted.
5. Competence (X_5) has a value at 0.011, calculated T of |-2.576| > table T 1.967 and B = -0.165. Thus, the Competence (X_5) variable does not affect the dependent variable and H_5 hypothesis is rejected.
6. Arrogance (X_6) has a value at 0.011, calculated T of 2.559 > table T 1.967 and B = 0.165. Thus, the Arrogance (X_6) variable positively affects the dependent variable and H_6 hypothesis is accepted.

5.6 Discussion

The effects of Financial Distress towards Fraudulent Financial Reporting
Financial distress does not affect fraudulent reporting. This result is in line with the research done by Kinney and McDaniel in Persons (1995). The harsh financial situation suffered by companies will cause the management to be motivated to increase profitability so that the financial statement can be fixed. If in a pressured situation, the manipulation of profit numbers only results in a short-term profit but significantly impacts the longevity of the company. Although management have the possibility to do the fraud, we find that low pressure and low opportunity did not create any agency problems.

The ongoing COVID-19 pandemic makes it possible for companies to suffer a financial distress. In Table 2, it can be observed that the financial distress rate's mean of the sample companies sits at 2.6913, which is a quite precarious number and lies in the grey area. However, the companies do not utilize such a condition to commit a fraudulent reporting as shown by the low discretionary accrual score.

The effects of Pressure towards Fraudulent Financial Reporting
Pressure which has financial target as its proxy, does not affect fraudulent reporting. This is in line with the researches done by Annisya & Asmaranti (2016) and Sihombing & Rahardjo (2014). Management leaves the ROA value as it is and does not make the current year's ROA to be the next year's ROA so that it does not cause the manipulation of financial statements.

In Table 2, it can be found that the mean of ROA of the sample companies is only equal to 0.0214, which is quite the small number and means that every target companies in the future will not cause pressure for the management to commit a fraudulent reporting. The lower the pressure given to the management, the more focused will the management be on improving profitability without having to resort to fraudulent reporting.

The effects of Opportunity towards Fraudulent Financial Reporting
Opportunity, which has ineffective monitoring as its proxy, positively and significantly affects fraudulent reporting. This is in line with the researches done by Tiffani & Marfuah (2015) and Amaliah et al. (2015). The number of independent commissioners and the total sum of board of commissioners's members show that, during the three-year-long observation, the monitoring done by the board of commissioners grew more effective. A better monitoring will cause the decrease in fraudulent reporting.

The effects of Rationalization towards Fraudulent Financial Reporting
Rationalization, which has total accruals ratio as its proxy, positively and significantly affects fraudulent reporting. This is in line with the researches done by Francis & Krishna (1999), Vermeer (2003), and Sihombing & Rahardjo (2014), which state that the total accruals rationalization towards the total asset significantly affects fraudulent financial reporting. Companies utilize the accruals principle in writing a financial statement because it is regarded as being more rational and fairer. Total accruals ratios of the sample companies vary greatly and show that management may use opportunities to commit a fraudulent reporting, even in the position to report losses.

The effects of Competence towards Fraudulent Financial Reporting
Competence, which has change in directors as its proxy, does not affect fraudulent reporting. This is in line with the researches done by Sihombing and Rahardjo (2014) and Ulfah et al. (2017). The directors' performance will always be monitored even a change in directors occur to ensure the increase of company's operation.

In Table 2, it can be observed that the sample companies' change in directors' mean equals to 0.5. The frequency of its occurrence may have been caused because the companies attempted to find more competent and experienced directors in running the company's operation during an unstable economic condition due to the COVID-19 pandemic.

The effects of Arrogance towards Fraudulent Financial Reporting
Arrogance, which has dualism position as its proxy, positively and significantly affects the occurrence of fraudulent reporting. This is in line with the research done by Hasnan et al. (2013). It can be found that the rate of dualism position is only equal to 7%, which is quite the small number and accompanied by an equally low fraudulent reporting mean. This shows that the companies chose not to allow the occurrence of dualism position to avoid fraudulent reporting.

6 Conclusion

This research shows that despite companies having experienced financial distress, it has no effect on fraudulent financial reporting. Regarding fraud reasons, it appears that there is the existence of a good monitoring, accruals which are implemented reasonably and the decreasing rate of dualism position. With the low rate of fraudulent financial reporting, elements such as opportunity, rationalization and arrogance positively affect fraudulent financial reporting. The data which has been gathered shows that the determined profit target naturally correlate with the pandemic and change in directors. The pressure and competence elements do not affect fraudulent financial reporting.

7 Research Limitations

For further research, it is suggested to do one with a different or multiple sectors with a larger sample size and additional independent variables such as external pressure, financial stability and personal financial needs. It will be a good opportunity to continue this research for future years.

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