Examining The Impact of Pressure and Opportunity on Financial Statement Fraud: Case Study Using the Beneish M-Score

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Abstract- The phenomenon of financial statement fraud from year to year is always interesting. Large companies do not rule out the possibility of financial statement fraud. The aim of the research is to empirically test the influence of the Triangle theory on financial report fraud. The independent variables are the Triangle theory factors, namely stimulus/pressure, opportunity and rationalization. The use of financial report data from companies that are members of Sri Kehati and listed on the Indonesia Stock Exchange in 2017-2021 is 13 companies with total data of 65. Data processing uses the Eviews12 application. From the results of hypothesis testing, financial statement fraud is not influenced by external pressure. Financial report fraud is influenced by ineffective monitoring and audit changes. Lack of effective internal control and monitoring can create opportunities for dishonest individuals to commit financial statement fraud

Indexed Terms- Beneish M-Score, Fraud statement report, Pressure, Opportunity

I. INTRODUCTION

Users and economic decision makers use financial reports as critical to business operations. To be useful, financial reports must be understandable, relevant, reliable, and free from misleading meanings and material errors (Samukri et al., 2022). Apart from that, financial reports must be presented honestly to show transactions and other events that actually occur in business activities (Ibrahim, 2022). Fraud in financial reports causes information to be invalid and not in accordance with financial reporting mechanisms. According to the Association of Certified Fraud Examiners (ACFE), fraud is an act of deception or mistake made by a person or entity who knows that the mistake can result in some bad benefit to the individual or entity or other party (Hidayat et al., 2022). Fraud is a term that is generally defined as cheating or fraud with the aim of obtaining material and non-material benefits

Financial statement fraud is a serious problem that has a negative impact on investor confidence, market integrity and economic stability. Several factors cause companies experiencing financial difficulties, such as decreasing revenue or profits, may feel pressured to manipulate financial reports to show better performance. Pressure from shareholders and the market to achieve certain financial targets can encourage management to take unethical steps, such as falsifying financial data. Intense competition in certain industries makes companies feel the need to demonstrate superior performance to remain relevant in the market.

Some previous research results regarding the influence of pressure on fraudulent financial reports are (Kurniati et al., 2020) which states that pressure with external pressure proxies influences fraudulent financial reports. External pressure is calculated using leverage, the incentive for companies to manipulate financial reports will be higher if the company's funding, the majority of which is funded from debt, is greater than the number of assets owned by the company. Meanwhile, according to (Luhri et al., 2021), pressure is a situation where company management is required to fulfill the wishes of investors or capital owners in maximizing company performance. Management that can maintain financial stability and increase company assets will certainly receive incentives and extensions. Meanwhile, according to (Dio et al., 2022) pressure has no effect on financial report fraud.

Apart from pressure, opportunity is a factor that influences someone to commit fraud. Supervision that is not optimal can cause someone to commit fraud.

This is in accordance with research results from (Dimas Bagus Prakoso, 2022) which states that opportunity influences financial report fraud. Fraud is more likely to be caused by the unprofessional attitude of the independent audit committee when carrying out its duties. The company will have a better monitoring system if it has a more independent audit committee. In contrast to research results from (Tanuwijaya, 2022) that opportunity has no effect on financial report fraud. Based on the research results above, it is stated that there are different research results and financial statement fraud from the past to the present is an interesting phenomenon to study. By conducting research, it is hoped that it will contribute to regulators in establishing policies regarding fraud.

II. LITERATURE REVIEW

- Fraud Triangle Theory

In the fraud triangle theory, Cressey (1953) identified three reasons why someone commits fraud. They are a stimulus or pressure. Shareholders put pressure because they want financial conditions to match their expectations. Because there is no strict supervision and sanctions that deter perpetrators, management tries to meet financial targets according to shareholder expectations by manipulating financial reports. (Taqi; et al., 2024), (Supriatiningsih et al., 2023)

- Pressure

Pressure, which is proxied by ROA, has a negative and significant impact on indications of fraud in the company's financial statements. The findings of this research support (Prakoso, 2022), (Utami et al., 2019) which shows that financial targets as measured by ROA have a negative impact on financial reporting deficiencies. This shows that the possibility of financial statement fraud is lower with a higher ROA value. Thus, the company's financial condition tends to be more stable because of management's performance, not because of fraud or manipulation carried out by management to get praise from users of financial reports. To achieve their goals, companies use advanced information systems, efficient business processes, professional hiring, and other policies. By improving operational quality, management will not be forced to achieve higher profitability targets. The proxy for pressure is leverage.

LEV = Total liability

- Opportunity

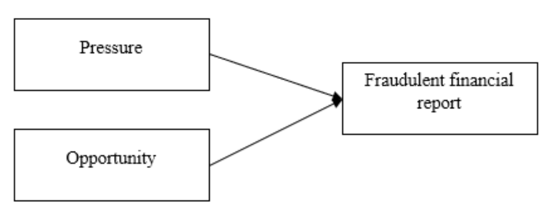
According to (Tiffani et al., 2015) opportunity (opportunity) Financial statement fraud refers to a situation or circumstances where the person who commits fraud has access, control, or opportunity to carry out wrong actions or manipulation in the preparation and reporting of financial information. In Triangle theory (Apriliana & Agustina, 2017), this opportunity is often one of three main components. Financial information systems that are vulnerable to hacking or manipulation in the digital era can also increase opportunities for fraud. Fraudsters can exploit weaknesses in data protection or system access controls. Opportunity measurement uses the following formula:

$$BDOUT = \frac{\text{Number of independent commissioners}}{\text{Total board of commissioners}}$$

- Financial Report Fraud

Financial statement fraud is carried out by presenting better or worse financial reports ((Dimas Bagus Prakoso, 2022). According to (Samukri et al., 2022), this is done with several objectives such as getting profits from selling shares, obtaining financing easily and showing good profits to cover the company's incompetence. Meanwhile, financial reports that are presented in a worse way are used for various purposes. Financial report fraud is measured using the Beneish M-Score to prevent fraud for the following year.

Figure 1 : Framework



Source: data’s author

Hypothesis

The relationship between external pressure and financial statement fraud

Financial statement fraud is mostly caused by external pressures. In situations where a business faces significant demands from shareholders, investors, analysts, media, competitors, economic conditions, and creditors, management may feel compelled to make changes to demonstrate better performance than what is actually occurring (Rianto & Rina, 2021). Consistent and increasing dividend payments are often expected by shareholders; However, if the company does not have sufficient financial performance to meet these expectations, management is tempted to falsify profits to meet these demands. This is in line with research findings such as Prakoso (2022), and Indarto & Ghozali (2016). Cheating increases with the pressure to get the best results.

H1: External pressure influences financial report fraud

The relationship between ineffective monitoring and financial statement fraud
Ineffective monitoring is defined as a situation where a company or organization cannot monitor financial transactions, business processes or internal controls properly (Supriatiningsih et al., 2023) (Widarti, 2015). If this happens, it can pave the way for fraudulent actions, such as fraudulent financial reports (Herianti, 2022) (Bumi; Supriatiningsih, 2023). Lack of monitoring can cause employees to make errors in financial reporting. Companies can reduce the risk of fraudulent financial reporting by implementing strict controls, regular internal audits, and robust systems for monitoring financial transactions.

H2: Ineffective monitoring has an effect on financial report fraud

III. RESEARCH METHODS

Sri Kehati is a company registered on the Indonesia Stock Exchange in 2017-2021 which was obtained through the official website www.idx.co.id and the company's official website. Companies registered with Sri Kehati for five consecutive years from 2017-2021 were 25. Meanwhile, companies registered with Sri Kehati according to the research variables were 13. The number of sample data is 13 x 5 years = 65 samples.

Discussion
Path Analysis model test results

Table 1. Output E-Views Model 1 Path Analysis result

Variable	Coefficient	Std. error	t-statistic	prob.
C	-26.3373	50.0747	-0.5434	0.568
LEV	-0.45752	0.4001	-1.147	0,311
BDOUT	122.6752	46.732	2.1734	0.041

Source: E-Views V.12 data processing results

Analysis Output E-Views V.12 Model 1 Path Analysis
- The LEV variable has a t-statistical value of -1.147 with a Prob value. (significance) of 0.311 > 0.05, H1 is rejected. It was concluded that the M-Score variable was not influenced by the LEV variable.
- The BDOUT variable has a t-statistical value of 2.1734 with a Prob value. (significance) of 0.041 < 0.05, H2 is accepted. It was concluded that the M-Score variable was influenced by the BDOUT variable.
- The Adjusted R-Square value is 0.33523, so it can be interpreted that the contribution of the influence of the LEV and BDOUT variables to the M SCORE variable is 33.52%

Discussion
The influence of external pressure on financial report fraud

From the results of hypothesis testing, financial statement fraud is not influenced by external pressure. Companies indexed by shares in Sri Kehati are companies listed on the capital market and meeting investor expectations can be very large. Companies affiliated with Sri Kehati have strict and effective regulations, external pressure to comply with legal regulations can be a significant barrier to fraudulent practices. This is supported by research results from (Purnama & Astika, 2022), (Purwitasasi, 2020). Meanwhile, research results from (Dio et al., 2022), (Rianto & Rina, 2021)(Cindy Kartika Dewi, 2022) state that financial targets have an influence on financial statement fraud.

The effect of changing opportunities on financial statement fraud

Audit turnover is a proxy for opportunity, a company managing policies or practices where an entity routinely changes the external audit firm responsible for auditing its financial statements. Audit changes can have a big impact on many things, such as transparency of accountability and the possibility of detecting fraud in financial reports. In addition, audit replacement can increase awareness of fraud. A new audit firm may have a new view of a company's financial activities, which makes it more likely to discover or suspect suspicious or unreasonable items in the financial statements. This is in line with research from However, if an audit firm works with a company for a long period of time, there is a risk of association or bias that could affect the auditor's independence and objectivity (Koroy, 2008), (Oktaviany & Reskino, 2023). The research results are inversely proportional to (Luhri et al., 2021), (Ashma' & Laksmi, 2023) which states that changing audits has no effect on financial report fraud.

CONCLUSION

From the results of hypothesis testing, external pressure does not affect financial report fraud. Ineffective monitoring affects fraudulent reports. Weak supervision and control can lead to fraudulent financial reports. Opportunities give someone enough room to commit fraud.

LIMITATIONS AND SUGGESTIONS

As more and more companies commit fraud in Indonesia and around the world, fraud theories are growing. It is hoped that future research will be adapted to company conditions and theories that are increasingly relevant to the development of fraud.

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