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Financial Report Fraud Determinants (Banking and Insurance Sub-Sector Companies on the Indonesia Stock Exchange 2017-2021)

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ABSTRACT

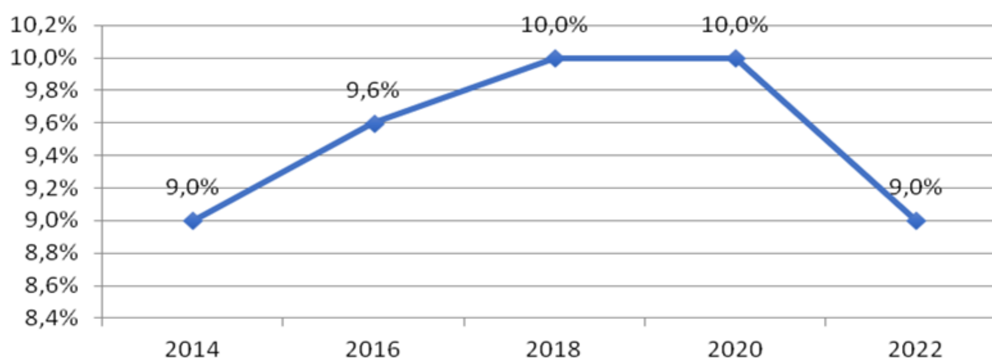
The purpose of this research is to examine and analyze financial stability, external pressure, financial targets, personal financial need, the nature of the industry, ineffective monitoring, and rationalization of fraudulent financial statements. The research was conducted on banking and insurance sub-sector companies with annual financial reports for the 2017-2021 period which are listed on the Indonesia Stock Exchange (IDX). The population in this study were all banking and insurance sub-sector companies listed on the Indonesia Stock Exchange. The samples used in this study were 55 companies taken by purposive sampling method. The data analysis technique used is multiple linear regression analysis using Smart PLS software. The results of the study show that financial stability and external pressure have a significant effect on fraudulent financial statements.

Keywords: Financial Stability, External Pressure, Financial Target, Personal Financial Need, Nature of Industry, Ineffective Monitoring, Rationalization, Financial Statement Fraud

INTRODUCTION

A financial report is a report that describes the financial position of the results of an accounting (Junaedi et al., 2023) process during a certain period which is used as a communication tool for interested parties (Suteja, 2018). For this reason, financial reports as information media must be free from material misstatements caused by errors or fraud so as not to mislead users. Fraud (Tommasetti et al., 2021; van Vuuren & van Vuuren, 2022) is an action that is deliberately carried out to deceive other people by hiding, eliminating, and changing information that can influence decision making, so that it can provide benefits for people who commit fraud (Utomo, 2018). Financial statement fraud (Renaldo, Sudarno, Suhardjo, et al., 2021; Renaldo, Sudarno, et al., 2022) is an action taken by an employee intentionally to cause material misstatement or omission of information in the preparation of an organization's financial reports (ACFE, 2020).

Fraud is a latent danger that threatens the world. The results of the Association of Certified Fraud Examiner Global research show that the number of cases of fraudulent financial statements worldwide tends to increase from year to year as can be seen in Figure 1.

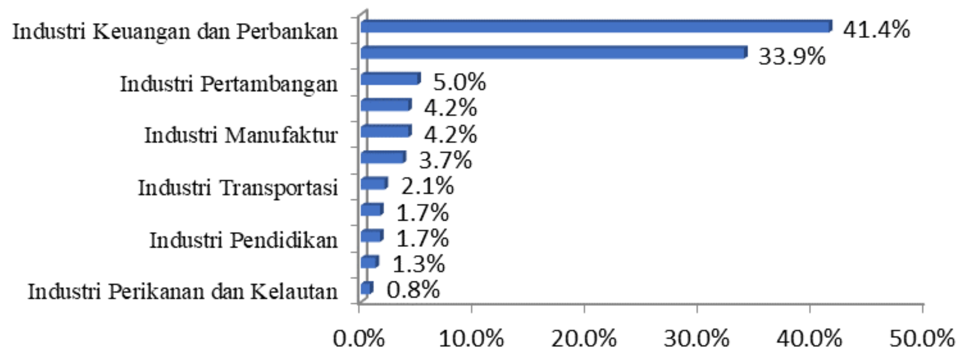


Source: ACFE Global, processed (2023)

Figure 1. Percentage of Increase in Cases of Financial Statement Fraud in 2014-2022

Cases of fraudulent financial statements starting from 2014 by 9% increased to 9.6% in 2016 and so on 10% in 2018 and in 2020 then decreased to 9% in 2022. ACFE stated that almost half of cases of fraudulent financial statements increased starting from 2014 to 2016 because the organization did not have adequate internal

controls and managers ignored existing controls (Napitupulu et al., 2021). ACFE assumes that the existence of antifraud controls such as hotlines, unannounced audits, proactive data monitoring, etc. can reduce fraud losses and speed up fraud detection. This is supported by the phenomenon of a decrease in cases of financial statement fraud in 2022. In addition, the results of the Association of Certified Fraud Examiner in Indonesian research show that fraud cases occurred in Indonesia in 2019 which can be seen in Figure 2.



Source: ACFE Indonesia Chapter, processed (2023)

Figure 2. Fraud Cases that Happened in Indonesia in 2019

It can be seen that in 2019 the most fraud cases occurred in the financial and banking industry sector with a percentage reaching 41.4% compared to other sectors. This shows that the financial and banking industry sector experienced a significant increase in fraudulent financial reporting.

Cases of fraudulent financial statements often occur in Indonesia, such as the case with PT. Bank Bukopin Tbk, which modified the credit card data of more than 100,000 cards which caused Bukopin's credit position and commission-based income to increase improperly. Seeing the incompatibility of the data, Bukopin reported it to the KAP & OJK for re-tracing, and finally Bank Bukopin decided to re-submit the 2016 financial statements. Where income from credit cards fell from IDR 1.06 trillion to IDR 317.88 billion which caused net profit in 2016 to IDR 183.56 billion from the previous IDR 1.08 trillion.

The second case occurred at PT. Jiwasraya Insurance (Persero). The Supreme Audit Agency (BPK) revealed that during a preliminary investigative examination, it was found that there was profit manipulation of IDR 360.3 billion in the financial statements of PT. Asuransi Jiwasraya (Persero) in 2016, then in 2017, the BPK saw a fraudulent reserve of IDR 7.7 trillion. If the backup is carried out according to the provisions, the company should suffer losses. It turns out that PT. Asuransi Jiwasraya (Persero) carried out window dressing on the sales of JS Saving Plan products by placing JS Saving Plan funds in low quality stocks, such as TRIO, SUGI, and LCGP which resulted in negative separation. The BPK even assessed that there was engineering during the share sale and purchase transaction carried out by Jiwasraya, so that the price of the shares purchased did not reflect the actual price. Due to this action, there are indications of losses related to mutual fund shares in Jiwasraya of up to IDR 6.4 trillion.

The cases of fraud that occurred illustrate that fraud in financial statements has become an increasingly critical problem today. Fraudulent behavior (Nyoto et al., 2021; Panjaitan et al., 2022; Renaldo et al., 2020a; Renaldo, Andi, et al., 2021) in the presentation of financial statements is very important to note so that these fraudulent acts can be detected early and can be eliminated so that the information (Chandra et al., 2018; Nyoto, Renaldo, et al., 2023; Renaldo & Murwaningsari, 2023) in the financial statements can be trusted by stakeholders and the public.

There are several theories that develop factors that encourage the potential for fraudulent financial reporting, one of which is the fraud triangle theory put forward by Donald R, Cressey, (1953). There are 3 elements put forward by this theory, namely pressure, opportunity, and rationalization.

Pressure or pressure is encouragement, motivation, or goals to be achieved, but limited by the inability to achieve them, which ultimately encourages someone to commit acts of fraud (Harahap, Majidah & Triyanto, 2017). According to SAS no. 99, there are four types of pressure that might result in fraudulent financial statements. The types of pressure are financial stability, external pressure, personal financial need, and financial targets (AICPA, 2002). Financial stability is a description of the company's financial condition in a stable condition from a financial perspective (Zahro, Diana & Mawardi, 2018). The level of financial stability of the company can be seen from the growth in the value of its assets. External pressure is excessive pressure for management to obtain loans and fulfill loan obligations from external parties (Purnama & Astika, 2022). External pressure can be

measured using the Debt to Asset ratio. Personal financial need is a situation where the company's finances are also influenced by the personal financial conditions of company executives (Utomo, 2018). Personal financial need is proxied by the ratio between the number of shares owned by company executives to the total outstanding shares of the company which is denoted by insider ownership. Financial targets are financial targets that must be achieved by management within the period determined by the shareholders (Purnama & Astika, 2022). Financial targets can be measured using return on total assets (ROA) (Lumbantoruan et al., 2021; Vina et al., 2021).

Research conducted by Kurnia & Anis, (2017) states that financial stability has an effect while financial targets and external pressure have no effect on fraudulent financial statements. However, this is contrary to research conducted by Prayoga & Sudarmaji, (2019) which states that financial targets have an effect while financial stability has no effect on fraudulent financial statements and research conducted by Jamil & Yudowati, (2019) which states that external pressure has an effect against fraudulent financial reporting. Research conducted by Nugraheni & Triatmoko, (2017) states that personal financial need has an effect on fraudulent financial statements, while research conducted by Widarti, (2015) states that personal financial need has no effect on fraudulent financial statements.

Opportunity is an opportunity that allows fraud to occur. According to SAS No. 99 there are two variables related to opportunities, namely the nature of industry and ineffective monitoring (AICPA, 2002). The nature of industry is the ideal state of a company in the industry (Murtanto & Kusumaningrum, 2016). The nature of industry can be proxied by the ratio of changes in inventory to sales (inventory). Ineffective monitoring is a situation where a company does not have or lacks an effective supervisory unit in monitoring company performance (Rachmania, 2017). Ineffective monitoring can be proxied by the ratio of the proportion of independent commissioners (BDOUT).

Research conducted by Yendrawati, Aulia & Prabowo, (2019) states that the nature of industry influences fraudulent financial statements and research conducted by Prayoga & Sudarmaji, (2019) states that ineffective monitoring has an effect on fraudulent financial statements. However, this is contrary to research conducted by Widarti, (2015) which states that the nature of industry and ineffective monitoring have no effect on fraudulent financial reporting.

Rationalization is an attitude and character over a series of ethical values that allow certain parties to commit fraudulent acts, and assume that the actions taken are not wrong (Zahro, Diana & Mawardi, 2018). According to SAS No.99, the rationalization of companies can be measured by the cycle of auditor turnover (AICPA, 2002).

Research conducted by Rachmania, (2017) states that rationalization has an effect on fraudulent financial statements, while research conducted by Kurnia & Anis, (2017) states that rationalization has no effect on fraudulent financial statements.

Based on the description above, it can be seen that the factors of financial stability, external pressure, financial targets, personal financial need, nature of industry, ineffective monitoring and rationalization can lead to fraudulent financial statements. From this background, research will be carried out with the title "Analysis of Factors Influencing Financial Statement Fraud (Empirical Study of Banking and Insurance Sub-Sector Companies Listed on the Indonesian Stock Exchange in 2017-2021)".

The purpose of this research is to identify and analyze the effect of financial stability, external pressure, financial targets, personal financial need, nature of industry, ineffective monitoring and rationalization on the occurrence of fraudulent financial statements.

LITERATURE REVIEW

Agency Theory

The emergence of agency theory is the result of developments in accounting research based on modifications to the development of financial accounting models that add aspects of human behavior to the economic model. Agency theory or agency theory is a contract in which one or more shareholders (principal) involve management (agent) to perform several services by delegating decision-making authority to agents (Jensen & Meckling, 1976). There are often differences in the relationships and interests that exist between shareholders and management. Shareholders are assumed to want an increase in the company's financial performance in the form of a high return (Ansorimal et al., 2022; Stevany et al., 2022) on investment that has been issued to the company, while the management has its own interests, namely to get greater compensation for the results of its performance. This agency relationship will raise two problems, namely the occurrence of information asymmetry, where in general management has more information about the actual financial position and operating

position of the entity from shareholders, as well as giving rise to conflict of interest due to dissimilar goals. so that the management does not always act in accordance with the interests of shareholders.

Triangle Theory (Fraud Triangle Theory)

The Fraud Triangle Theory was introduced by Donald R, Cressey in 1953. The Fraud Triangle Theory concept has been widely used in the practice of public accountants in the Statement of Auditing Standard (SAS) No.99. According to Cressey, there are three characteristics that often appear in a fraud and are always the reasons for committing the fraud, namely: (1) Pressure is an encouragement, motivation, or goal to be achieved, but limited by the inability to achieve it, which ultimately encourages someone to do something. acts of fraud (Harahap, Majidah & Triyanto, 2017). Pressure often arises due to the pressure of financial needs. These needs are often needs that cannot be discussed together with other people to find a solution, so they must be resolved privately. This can lead to fraud because under pressure, individuals can do anything for their own interests. According to SAS no. 99 (AICPA, 2002), there are four types of pressure that might result in fraudulent financial statements consisting of: (a) Financial stability, (b) External pressure, (c) Financial targets. Finance) and (d) Personal Financial need (Financial Needs). (2) Opportunity is an opportunity that allows fraud to occur. Of the three characteristics in the fraud triangle, opportunity is a basic thing that can happen at any time, so companies must supervise the entire organizational structure. According to SAS No. 99 (AICPA, 2002), there are two variables related to opportunities which consist of: (a) Nature of industry and (b) Ineffective Monitoring. (3) Rationalization is an attitude and character over a series of ethical values that allow certain parties to commit fraudulent acts, and assume that the actions taken are not wrong (Zahro, Diana & Mawardi, 2018). Rationalization may not be susceptible to observation by the auditor so that if the auditor fails to detect fraud or manipulation of financial statements, the attitude of rationalization will continue to increase.

Fraud

Fraud is an action that is deliberately carried out to deceive other people by hiding, eliminating, and changing information that can influence decision making, so that it can provide benefits for people who commit fraud (Utomo, 2018). ACFE, (2022) defines fraud as an intentional abuse of power or misuse of resources by a person or entity which may result in some unfavorable benefits to individuals, entities or other parties with the aim of benefiting oneself. ACFE also classifies fraud into three categories that often occur in Indonesia, namely corruption, asset misappropriation, and financial statement fraud. A complete classification of job fraud is known as the fraud tree.

Fraudulent Financial Statements

Financial statement fraud is an intentional act or omission that results in a material misstatement that can mislead users of financial statements. Financial statement fraud is an action taken by an employee intentionally to cause material misstatement or omission of information in the preparation of an organization's financial reports (ACFE, 2022). According to SAS No.99 (AICPA, 2002), financial statement fraud can be carried out in several ways as follows: (1) Altering or falsifying accounting records and manipulating supporting documents from financial reports. (2) Making intentional mistakes or omissions on significant information in the elements of financial statements. (3) Misuse of principles relating to the method of presentation, disclosure, classification, and amount.

Influence Between Variables and Hypotheses

The Influence of Financial Stability on Fraudulent Financial Statements

Financial stability is a description of the company's financial condition in a stable condition from a financial perspective (Zahro, Diana & Mawardi, 2018). SAS No. 99 explains that financial stability or profitability (Suyono et al., 2020) will be threatened by economic conditions, industry and company operating conditions such as high levels of competition or market saturation accompanied by reduced profit margins, high vulnerability due to changes in technology and fast interest rates, declining levels of consumer demand, operational losses. companies that cause bankruptcy, foreclosures or takeovers, repeated negative cash flows, unusual growth and new regulations (AICPA, 2002). Companies will commit fraudulent financial statements to show stable growth conditions.

Research conducted by Kurnia & Anis, (2017), Suharsana & Prisiena, (2019), Widarti, (2015), and Yulia, (2018) stated that financial stability has an effect on financial statement fraud. Based on this description, the hypothesis proposed in this study is as follows:

H1: Financial stability has an effect on fraudulent financial statements.

The Effect of External Pressure on Fraudulent Financial Statements

External pressure is excessive pressure for management to obtain loans and fulfill loan obligations from external parties (Purnama & Astika, 2022). Management will be under excessive pressure to meet third party expectations in such cases as unrealistic expectations of profitability from investment analysis, the need for additional debt or equity financing, and limited ability to meet capital market listing requirements. This will raise concerns that when the debt is due, the company will not be able to repay it, giving rise to the urge to manipulate financial reports.

Research conducted by Jamil & Yudowati, (2019), Nugraheni & Triatmoko, (2017), Rachmania, (2017), Suharsana & Prisiena, (2019), Yulia, (2018), and Zahro, Diana & Mawardi, (2018) states that external pressure has an effect on fraudulent financial reporting. Based on this description, the hypothesis proposed in this study is as follows:

H2: External pressure has an effect on financial statement fraud.

The Effect of Personal Financial Need on Fraudulent Financial Statements

Personal financial need is a situation where the company's finances are also influenced by the personal financial conditions of company executives (Utomo, 2018). The personal financial condition of the company's executive members can be threatened by the entity's deteriorating financial performance due to compensation associated with aggressive target achievement, or the existence of personal guarantees or entity debt. This will cause managers to commit fraud on company finances to fulfill personal interests.

Research conducted by Nugraheni & Triatmoko, (2017) states that personal financial need influences financial reporting fraud. Based on this description, the hypothesis proposed in this study is as follows:

H3: Personal financial need has an effect on fraudulent financial reporting.

The Effect of Financial Targets on Fraudulent Financial Statements

Financial targets are financial targets that must be achieved by management within the period determined by the shareholders (Purnama & Astika, 2022). SAS No. 99 states that management will be under intense pressure to achieve financial targets including sales targets or incentives based on profit levels set by those charged with corporate governance (AICPA, 2002).

Research conducted by Prayoga & Sudarmaji, (2019), Nugraheni & Triatmoko, (2017), Rachmania, (2017), Suharsana & Prisiena, (2019), Widarti, (2015), and Yulia, (2018) stated that the financial target effect on fraudulent financial statements. Based on this description, the hypothesis proposed in this study is as follows:

H4: Financial targets have an effect on fraudulent financial reporting.

The Influence of the Nature of Industry on Fraudulent Financial Statements

The nature of industry is the ideal state of a company in the industry (Murtanto & Kusumaningrum, 2016). In the financial statements there are several accounts whose balances are determined by the company based on an estimate, such as bad debts account and accounts payable inventory account. Inventory accounts with complex calculations are more prone to being misrepresented, thereby providing opportunities for fraud.

Research conducted by Yendrawati, Aulia & Prabowo, (2019), and Yulia, (2018) states that the nature of industry influences fraudulent financial statements. Based on this description, the hypothesis proposed in this study is as follows:

H5: The nature of industry has an effect on fraudulent financial statements.

The Effect of Ineffective Monitoring on Fraudulent Financial Statements

Ineffective monitoring is a situation where a company does not have or lacks an effective supervisory unit in monitoring company performance (Rachmania, 2017). Ineffective management monitoring can be caused by management domination by one person or a small group without compensating controls, and ineffective oversight by an independent audit committee in the process of financial reporting and internal control. The lack of control on the part of the company will create opportunities for fraud to occur, therefore the company must increase the effectiveness of supervision.

Research conducted by Prayoga & Sudarmaji, (2019), Jamil & Yudowati, (2019), Suharsana & Prisiena, (2019), Yendrawati, Aulia & Prabowo (2019), and Yulia, (2018) states that ineffective monitoring has an effect on fraud financial statements. Based on this description, the hypothesis proposed in this study is as follows:

H6: Ineffective monitoring has an effect on fraudulent financial reporting.

The Effect of Rationalization on Fraudulent Financial Statements

Rationalization is an attitude and character over a series of ethical values that allow certain parties to commit fraudulent acts, and assume that the actions taken are not wrong (Zahro, Diana & Mawardi, 2018). Rationalization may not be susceptible to observation by the auditor so that if the auditor fails to detect fraud or manipulation of financial statements, the attitude of rationalization will continue to increase.

Research conducted by Yulia, (2018), Rachmania, (2017), and Suharsana & Prisiena, (2019) states that Rationalization has an effect on financial statement fraud. Based on this description, the hypothesis proposed in this study is as follows:

H7: Rationalization has an effect on fraudulent financial statements.

Framework

Based on the description above, the relationship between the variables Financial Stability, External pressure, Personal Financial Need, Financial Target, Nature of Industry, Ineffective Monitoring, and Rationalization of financial statement fraud can be described in a theoretical framework as shown in the figure below:

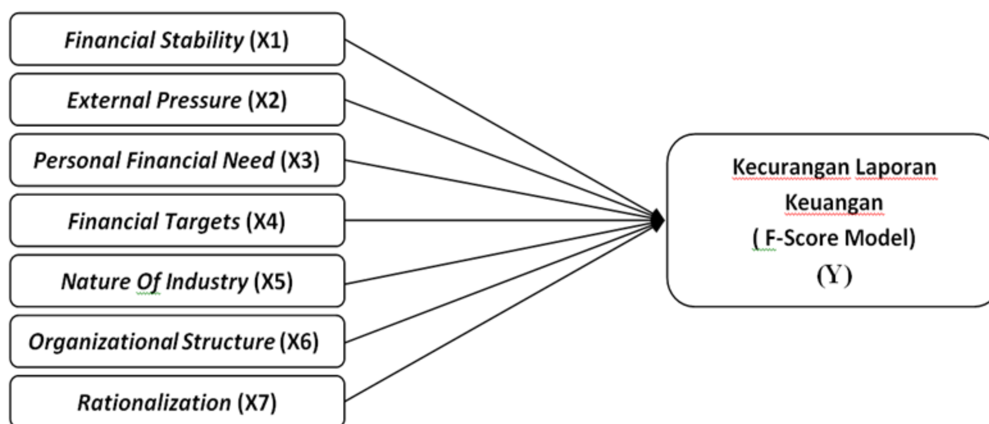


Figure 3. Thinking Framework

METHODOLOGY

Place and time of research

The research began from September to December 2022. The research objects used were companies in the banking and insurance sub-sector that were listed on the Indonesia Stock Exchange for the period 2017 - 2021.

Population and Sample

The population is the entire element consisting of objects or subjects as data sources that have certain characteristics and qualities in a study and can be used to make decisions. The population selected in this study were all banking and insurance sub-sector companies listed on the Indonesia Stock Exchange in the 2017 – 2021 period. That is, 59 companies. The sample is part of the number and characteristics possessed by the population. The sampling technique used in this research is purposive sampling technique. Purposive sampling is a data collection technique based on predetermined criteria based on consideration of the research objectives, namely: (1) The population of banking and insurance sub-sector companies listed on the IDX. (2) Companies that are not listed on the IDX in the 2017-2021 period.

Data Types and Sources

This type of research used is quantitative research. The data sources used in this study are secondary data, namely annual financial reports and annual reports of banking and insurance sub-sector companies listed in 2017-2021 obtained from https://www.idx.co.id/ and the company's website (Renaldo, Suhardjo, Putri, Sevendy, et al., 2021).

Operational Definition of Research Variables

Dependent Variable

The dependent variable is the dependent variable which is affected or which is the result because of the independent variable. the dependent variable is often referred to as the output, criterion, consequent, dependent, or endogenous variable. The dependent variable used in this study is financial statement fraud. Financial statement fraud can be detected using the fraud score model developed by Dechow et al., (2007) and then modified by Skousen & Twedt, (2009). The F-Score model is the sum of two variables, namely accrual quality and financial performance, which can be calculated using the following equation:

F-score = Accrual Quality + Financial performances

Accrual quality can be proxied by accrual RSST. RSST is an abbreviation of the names of Richardson, Sloan, Soliman, and Tuna, who are the researchers who sparked this formula. RSST accruals can be calculated using the following formula:

$$RSST\ Accrual = \frac{\Delta WC + \Delta NCO + \Delta FIN}{Average\ Total\ Asset}$$

Information:

Working Capital (WC) = (Current Assets - Current Liabilities)

Non-Current Operating (NCO) = (Total Assets - Current Assets – long term Investment) - (Total Liabilities - Current Liabilities - Long Term Debt)

Financial Accrual (FIN) = (Total Investment - Total Liabilities)

Average Total Assets = $\frac{(Beginning\ Total\ Assets + End\ Total\ Assets)}{2}$

It is assumed that the financial performance of a financial report can predict the potential for fraudulent financial statements (Skousen & Twedt, 2009). Financial performance can be seen through change in reversibility, change in inventories, change in cash sales, and change in earnings (Lasrya et al., 2021). Financial Performance can be calculated using the following equation:

Financial performance = change in receivables + change in inventories + change in cash sales + change in earnings

Information:

Change in receivable = $\frac{\Delta\ Account\ Receivable}{Average\ Total\ Aset}$

Change in inventories = $\frac{\Delta Inventories}{Average\ Total\ Asset}$

Change in cash sales = $\frac{\Delta Sales}{Sales\ (t)}$ - $\frac{\Delta\ Account\ Receivable}{Account\ Receivable\ (t)}$

Change in earning = $\frac{Earning\ (t)}{Average\ Total\ Aset\ (t)}$ - $\frac{Earning\ (t-1)}{Average\ Total\ Aset\ (t-1)}$

Independent Variables

Financial Stability

Financial stability is a description of the company's financial condition in a stable condition from a financial perspective (Zahro, Diana & Mawardi, 2018). The growth of a company's assets can be seen from asset change, the greater the ratio of changes in a company's total assets, the higher the potential for financial statement fraud. For this reason, this study uses asset change as an indicator to measure financial stability, this is in accordance with research conducted by (Skousen et al., 2011). Asset change can be calculated by the following formula:

$$ACHANGE = \frac{Total\ Asset\ (t) - Total\ Asset\ (t-1)}{Total\ Asset\ (t-1)}$$

External Pressure

External pressure is excessive pressure for management to obtain loans and fulfill loan obligations from external parties (Purnama & Astika, 2022). Excessive pressure on management can lead to fraudulent financial reporting. Leverage is an indicator that can be used to describe pressure from outside, the higher the leverage ratio

of a company, the greater the pressure that management gets in paying off debts originating from loans. In this study (Skousen et al., 2011) uses a leverage ratio that can be calculated by the debt to asset ratio as an indicator measuring pressure from outside. debt to asset ratio can be calculated by the following formula (Sudarno, Renaldo, Hutahuruk, et al., 2022):

$$Debt\ to\ Assets\ Ratio = \frac{Total\ Debt}{Total\ Asset}$$

Personal Financial Need

Personal financial need is a situation where the company's finances are also influenced by the personal financial conditions of company executives (Utomo, 2018). Because company executives have significant shares in a company, the condition of the company's financial performance will directly affect their financial situation, so that it will trigger company executives to commit fraudulent financial statements. In research (Skousen et al., 2011) using internal party share ownership as an indicator to measure financial needs. Share ownership can be calculated using the following formula:

$$Insider\ Ownership = \frac{Total\ Saham\ yang\ dimiliki\ Pihak\ Internal}{Total\ Saham\ Biasa\ yang\ Beredar}$$

Financial Targets

Financial targets are financial targets that must be achieved by management within the period determined by the shareholders (Purnama & Astika, 2022). Return on total assets is a profitability ratio that can be used to measure a company's effectiveness in generating profits by utilizing available assets. A decrease in return on total assets will result in management committing fraudulent financial reporting in order to achieve the set targets. Return on total assets can also be used to assess management performance according to research conducted by (Skousen et al., 2011). Return on total assets can be calculated using the following formula:

$$ROA = \frac{Earning\ After\ Interest\ and\ Tax}{Total\ Asset}$$

Nature of Industry

The nature of industry is the ideal state of a company in the industry (Murtanto & Kusumaningrum, 2016). In the financial statements there are several accounts whose balances are determined by the company based on an estimate, such as bad debts account and accounts payable inventory account. Inventory accounts with complex calculations are more prone to being misrepresented, thereby providing opportunities for fraud. The greater the inventory of a company, the more accounts that can be used for manipulation. In research (Skousen et al., 2011) using inventory as an indicator for the nature of the industry. inventory can be calculated by the following formula:

$$Inventory = \frac{Inventory\ (t) - Inventory\ (t-1)}{Sales\ (t) - Sales\ (t-1)}$$

Ineffective Monitoring

Ineffective monitoring is a situation where a company does not have or lacks an effective supervisory unit in monitoring company performance (Rachmania, 2017). In research by Skousen et al., (2011) explains that fraud firms consistently have fewer independent board members than companies without fraud. The more independent members on the board of directors, the tighter the internal control will be, thereby reducing the opportunity for fraudulent financial reporting. For this reason, this study uses BDOUT as a proxy to measure Ineffective Monitoring which can be calculated using the following formula:

$$BDOUT = \frac{Number\ of\ Independent\ Commissioners}{Number\ of\ commissioners}$$

Rationalization

Rationalization is an attitude and character over a series of ethical values that allow certain parties to commit fraudulent acts, and assume that the actions taken are not wrong (Zahro, Diana & Mawardi, 2018). Rationalization may not be susceptible to observation by the auditor so that if the auditor fails to detect fraud or manipulation of financial statements, the attitude of rationalization will continue to increase. In the study of Skousen et al., (2011) states that audit failure is caused by a change in auditors in a company which is considered as an attempt to eliminate traces of fraud found by previous auditors. Auditor changes can reduce the likelihood of detection and can make it easier for management to rationalize fraud. The more frequently a company changes

its external auditor, the higher the potential for management to commit fraud. Auditor change can be formulated as follows:

AUDCHANGE = using a dummy variable, if there is a change in the public accounting firm it is coded 1, otherwise if there is no change in the public accounting firm it is coded 0.

Data analysis technique

This study used the SPSS (Statistical Package for the Social Science) approach, which is a data processing software that has statistical analysis capabilities and a data management system in a graphical environment with an easy-to-understand display and method of use. However, if the research data is not normally distributed, it will use the PLS (Partial Least Square) approach, which is a multivariate statistical technique that can be used to analyze many response variables and explanatory variables simultaneously. PLS is a powerful analysis method because it is not based on many assumptions or conditions such as the normality test.

Descriptive Analysis

The variables in this study are described using descriptive statistical analysis, namely statistics used to analyze data on the object under study through sample and population data by providing an overview or description of the data that can be seen from the minimum value, maximum value, variance, standard deviation and average value. average (mean). Descriptive statistics are generally used to provide information about the characteristics of the main variables in a study.

Classic assumption test

The classical assumption test is an analysis conducted to assess whether in a multiple linear regression model based on linear ordinary least (OLS) there are classical assumption problems that can cause data deviations. There is a classic assumption test that is used as follows:

Normality test

The normality test is used to test whether the dependent variable and independent variable in the linear regression model have a normal distribution or not. Data that is not normal is generally because there is extreme data that may occur due to errors in sampling. The normality test can be detected by the Kolmogorov-Smirnov statistical test with the following provisions: (1) If the resulting value on asym.sig is greater than 0.5, the research data is normally distributed and (2) If the resulting value on asym.sig is greater than smaller than 0.5, the research data is not normally distributed.

Multicollinearity Test

The multicollinearity test was used to test whether the linear regression model found a correlation between the independent variables. The linear regression model can be said to be good if there is no correlation between the independent variables. Multicollinearity test detection uses the variance inflation factor (VIF) with the following provisions: (1) if the VIF value < 10, the data is free from multicollinearity symptoms and (2) if the VIF value is > 10, the data is not free from multicollinearity symptoms.

Path Analysis

Path analysis is a statistical analysis technique developed from multiple regression analysis. Path analysis is the use of regression analysis to estimate a causal relationship between variables and to know that there is an indirect effect between the independent variables on the dependent variable (Ghozali, 2016). This analysis uses the following provisions: (1) if the variable regression coefficient (P-Value) is less than 0.05 then the variable has a significant effect and (2) if the variable regression coefficient (P-Value) is greater than 0.05 then the variable no significant effect.

Multiple Linear Regression Analysis

Regression analysis is an analysis of the dependence of one or more independent variables on one dependent variable. This analysis aims to predict the mean value of the population based on the values of the independent variables. The regression analysis used in this study is multiple linear regression analysis which is used to predict one dependent variable based on two or more independent variables. The multiple linear regression analysis equation model is as follows:

$$FFS = \alpha + \beta 1FS + \beta 2EP + \beta 3PFN + \beta 4FT + \beta 5NI + \beta 6IM + \beta 7RZ + e$$

Information:

FFS : Fraudulent Financial Statements

α : Constants

$\beta_1 \ldots \beta_n$: Regression Coefficient

FS : Financial Stability

EP : External Pressure

PFN : Personal Financial Need

FT : Financial Targets

NI : Nature of Industry

IM : Ineffective Monitoring

RZ : Rationalization

e : Error value

Determination Coefficient Test (R2)

The coefficient of determination test is basically used to test the ability of the model to explain the dependent variable (Ghozali, 2016). The coefficient of determination is between 0 and 1. The basis for making a decision on the coefficient of determination test is as follows: (1) if the coefficient of determination is <0, then the ability of the independent variable to explain the variation of the independent variable is very limited and (2) if the value of the coefficient of determination is > 1, then the independent variable is able to provide all the information needed to predict the variation of the independent variable.

Hypothesis Test (t test)

The t test is used to test whether the independent variable partially has a significant effect on the dependent variable in the linear regression model. A variable can be said to have a significant effect if the calculated t value of the variable is greater than the t table value. This analysis uses the level of confidence (1 - α) and the value of df (degree of freedom) to determine the critical value. The criteria for accepting or rejecting the hypothesis are as follows: (1) if the value of tcount > ttable or sig α, then there is a partial effect of the independent variable on the dependent variable and (2) if the value of tcount \let ttable or sig > α, then there is no partial effect of the independent variable on the dependent variable.

RESULTS AND DISCUSSION

Variable Descriptive Analysis

Table 1. Variable Descriptive Statistical Test Results

No	Code	Year					Average	Min	Max
		2014	2015	2016	2017	2018			
1	Achange	0,150	0,085	0,114	0,083	0,247	0,136	0,083	0,247
2	Dar	0,746	0,750	0,751	0,749	0,734	0,746	0,734	0,751
3	Ins Own	0,020	0,017	0,015	0,018	0,022	0,018	0,015	0,022
4	Roa	0,013	0,012	0,006	0,003	0,001	0,007	0,001	0,013
5	Inventory	0,544	-5,687	0,675	-3,745	9,041	0,166	-5,687	9,041
6	Bdout	0,547	0,573	0,586	0,574	0,588	0,574	0,547	0,588
7	Audchange	0,182	0,145	0,273	0,182	0,200	0,196	0,145	0,273
8	F Score	0,096	-0,017	-0,210	-0,204	0,230	-0,021	-0,210	0,230

Source: Processed Data, 2023

Based on table 1 data, the results are as follows: (1) the Achange variable has a minimum value of 0.083 and a maximum value of 0.247 with an average value of 0.136. (2) the Dar variable has a minimum value of 0.734 and a maximum value of 0.751 with an average value of 0.746. (3) the Ins Own variable has a minimum value of 0.015 and a maximum value of 0.022 with an average value of 0.018. (4) the ROA variable has a minimum value of 0.001 and a maximum value of 0.013 with an average value of 0.007. (5) the Inventory variable has a minimum value of -5.687 and a maximum value of 9.041 with an average value of 0.166. (6) the Bdout variable has a minimum value of 0.547 and a maximum value of 0.588 with an average value of 0.574. (7) the Audchange variable has a minimum value of 0.145 and a maximum value of 0.273 with an average value of 0.196. (8) the F Score variable has a minimum value of -0.210 and a maximum value of 0.230 with an average value of -0.021.

Classic assumption test

The classical assumption test is an analysis conducted to assess whether in a multiple linear regression model based on linear ordinary least (OLS) there are classical assumption problems that can cause data deviations. This study uses the following test:

Normality test

Table 2. Normality Test Results (One-Sample Kolmogorov-Smirnov Test)

	Unstandardized Residual
Test Statistic	.223
Asymp.Sig. (2-tailed)	.000

Source: SPSS Processed Data, 2023

Based on table 2 shows that the resulting value in asym.sig is 0.000, it can be concluded that the research data is not normally distributed because the asym.sig value is below the value of 0.5. Therefore, this research cannot be continued with the SPSS approach, so it must be replaced with the PLS approach, which is not based on many assumptions or requirements, such as the normality test.

Multicollinearity Test

Table 3. Multicollinearity Test Results

Variable	VIF	Result
Achange (X1)	1.039	No Multicollinearity
Dar (X2)	1.062	No Multicollinearity
Ins Own (X3)	1.046	No Multicollinearity
ROA (X4)	1.128	No Multicollinearity
Inventory (X5)	1.009	No Multicollinearity
Bdout (X6)	1.008	No Multicollinearity
Audchange (X7)	1.053	No Multicollinearity

Source: Smartpls Processed Data, 2023

Based on table 3 shows that there is no value that exceeds 10, it can be concluded that there is no multicollinearity problem between the independent variables and the dependent variable.

Path Analysis

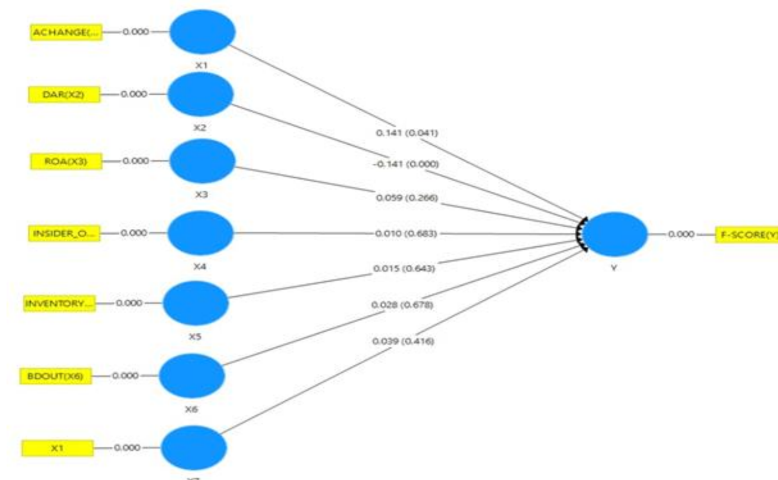


Figure 4. Path Analysis

Based on Figure 4, the following results can be obtained: (1) the regression coefficient of the ACHANGE variable (P-Value) is 0.141 which is less than 0.05, it can be concluded that the ACHANGE variable has a significant effect on the F-Score. (2) the regression coefficient of the DAR variable (P-Value) is -0.141 less than 0.05, it can be concluded that the DAR variable has a significant effect on the F-Score. (3) the variable regression coefficient (P-Value) ROA is 0.059 greater than 0.05, it can be concluded that the ROA variable has no significant effect on the F-Score. (4) the regression coefficient of the INS OWN variable (P-Value) is 0.010 less than 0.05, it can be concluded that the INS OWN variable has a significant effect on the F-Score. (5) the regression coefficient of the INVENTORY variable (P-Value) is 0.015 less than 0.05, so it can be concluded that the INVENTORY

variable has a significant effect on the F-Score. (6) the regression coefficient of the BDOUT variable (P-Value) is 0.028 less than 0.05, it can be concluded that the BDOUT variable has a significant effect on the F-Score. (7) the regression coefficient of the AUDCHANGE variable (P-Value) is 0.039 which is less than 0.05, so it can be concluded that the AUDCHANGE variable has a significant effect on the F-Score.

Multiple Linear Regression Analysis

Table 4. Results of path coefficients

Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)
Financial Stability	0.141	0.140	0.069
External Pressure	-0.141	-0.143	0.038
Personal Financial Need	0.010	0.009	0.025
Financial Target	0.059	0.062	0.052
Nature of Industry	0.015	0.016	0.033
Ineffective Monitoring	0.028	0.034	0.071
Rationalization	0.099	0.097	0.122

Source: Processed Data Smartpls, 2023

Based on table 4 above, the analysis model in this study is as follows:

$$FFS = 0.141FS - 0.141EP + 0.010PFN + 0.059FT + 0.015NI + 0.028IM + 0.099RZ$$

Based on the results of the regression model above, it can be concluded that the results of the interpretation are as follows: (1) The regression coefficient of the financial stability variable is 0.141. That is, if financial stability increases by one unit, it will increase the value of fraudulent financial statements by 0.141 units and vice versa. (2) The regression coefficient of the external pressure variable is -0.141. That is, if the external pressure increases by one unit, it will reduce the value of fraudulent financial statements by -0.141 units and vice versa. (3) The regression coefficient of the personal financial need variable is 0.010. That is, if the personal financial need increases by one unit, it will increase the value of fraudulent financial statements by 0.010 units and vice versa. (4) The regression coefficient of the financial target variable is 0.059. That is, if the financial target increases by one unit, it will increase the value of fraudulent financial statements by 0.059 units and vice versa. (5) The regression coefficient of the nature of industry variable is 0.015. That is, if the nature of industry experiences a one-unit increase, it will increase the value of fraudulent financial statements by 0.015 units and vice versa. (6) The regression coefficient of the ineffective monitoring variable is 0.028. That is, if ineffective monitoring increases by one unit, it will increase the value of fraudulent financial statements by 0.028 units and vice versa. (7) The regression coefficient of the rationalization variable is 0.099. That is, if the rationalization increases by one unit, it will increase the value of fraudulent financial statements by 0.099 units and vice versa.

Determination Coefficient Test (R2)

Table 5. R Square Test Results

Variable	R Square	R Square Adjusted
Fraudulent Financial Statement	0.052	0.028

Source: Processed Data Smartpls, 2023

Based on table 5, it shows that the R Square Adjusted value is 0.028 or 2.8%. This shows that all independent variables simultaneously have an influence of 2.8% on the dependent variable. While the remaining 97.2% is influenced by other variables not tested in this study.

Hypothesis Test (t test)

Table 6. Path Coefficients Results

Variable	T Statistics (|O/STDEV|)	P Values	Conclusion
Financial Stability	2.049	0.040	Significant
External Pressure	3.754	0.000	Significant
Personal Financial Need	0.407	0.684	Not Significant
Financial Target	1.138	0.255	Not Significant
Nature Of Industry	0.450	0.653	Not Significant
Ineffective Monitoring	0.394	0.694	Not Significant
Rationalization	0.816	0.414	Not Significant

Source: Smartpls Processed Data, 2023

Based on table 6 it can be concluded as follows: (1) the results of the path coefficients test in table 4.67 show that financial stability as measured by Achange has a P value of 0.041 with a significance level of 5% or 0.05 (P value <0.05), so that interpreted that financial stability has a significant effect on fraudulent financial statements, so in this study Ho is rejected and Ha is accepted. (2) the results of the path coefficients test in table 4.67 show that external pressure as measured by Dar has a P value of 0.000 with a significance level of 5% or 0.05 (P value <0.05), so that it can be interpreted that external pressure has a significant effect on fraudulent reports finance then in this study Ho was rejected and Ha was accepted. (3) the results of the path coefficients test in table 4.67 show that personal financial need as measured by Insider Ownership has a P value of 0.266 with a significance level of 5% or 0.05 (P value > 0.05), so it can be interpreted that personal financial need has no effect significant to fraudulent financial statements, in this study Ho was accepted and Ha was rejected. (4) the results of the path coefficients test in table 4.67 show that the financial target as measured by RoA has a P value of 0.683 with a significance level of 5% or 0.05 (P value > 0.05), so it can be interpreted that the financial target has no significant effect on fraud financial reports, in this study Ho was accepted and Ha was rejected. (5) the results of the path coefficients test in table 4.67 show that the nature of industry as measured by Inventory has a P value of 0.643 with a significance level of 5% or 0.05 (P value > 0.05), so it can be interpreted that nature of industry has no significant effect against fraudulent financial statements, in this study Ho was accepted and Ha was rejected. (6) the results of the path coefficients test in table 4.67 show that ineffective monitoring as measured by Bdout has a P value of 0.678 with a significance level of 5% or 0.05 (P value > 0.05), so it can be interpreted that ineffective monitoring has no significant effect on fraudulent reporting finance then in this study Ho was accepted and Ha was rejected. (7) the results of the path coefficients test in table 4.67 show that rationalization as measured by Auditor Change has a P value of 0.416 with a significance level of 5% or 0.05 (P value > 0.05), so that it can be interpreted that rationalization has no significant effect on fraudulent reporting finance then in this study Ho was accepted and Ha was rejected.

Discussion

The Influence of Financial Stability on Fraudulent Financial Statements

Financial stability is a description of the company's financial condition in a stable condition from a financial perspective (Zahro, Diana & Mawardi, 2018). Based on the results of the hypothesis testing that has been done, it can be seen that the financial stability variable has a significant effect on fraudulent financial statements. This is in line with the results of research conducted by Kurnia & Anis, (2017), Suharsana & Prisiena, (2019), Widarti, (2015), and Yulia, (2018) which state that financial stability affects financial reporting fraud. Investors, creditors and the public will prioritize companies that have good financial stability. This requires that the company's financial stability conditions must always be in good condition, so that managers will manipulate financial reports related to the growth of company assets to maintain the company's financial stability conditions remain stable.

However, this research is in contrast to research conducted by Prayoga & Sudarmaji, (2019) which states that financial stability has no effect on fraudulent financial statements. This can be caused by external factors that affect the company's financial stability such as the business environment which can pose a threat to the company and other similar companies in the same industry so that management does not need to worry about losing investors.

The Effect of External Pressure on Fraudulent Financial Statements

External pressure is excessive pressure for management to obtain loans and fulfill loan obligations from external parties (Purnama & Astika, 2022). Based on the results of the hypothesis testing that has been done, it can be seen that the external pressure variable has a significant effect on fraudulent financial statements. This is in line with research conducted by Jamil & Yudowati, (2019), Nugraheni & Triatmoko, (2017), Rachmania, (2017), Suharsana & Prisiena, (2019), Yulia, (2018), and Zahro, Diana & Mawardi , (2018) states that external pressure has an effect on fraudulent financial statements. Management will be under excessive pressure to meet third party expectations in such cases as unrealistic expectations of profitability from investment analysis, the need for additional debt or equity financing, and limited ability to meet capital market listing requirements. This will raise concerns that when the debt is due, the company will not be able to repay it, giving rise to the urge to manipulate financial reports.

However, this research is in contrast to research conducted by Kurnia & Anis, (2017) which states that external pressure has no effect on financial statement fraud. high or low pressure from outside will not allow fraudulent financial statements to occur if it is within the limits of management's ability to bear and leverage ratios are not always a consideration for investors in providing loans to a company. Other things that can be considered are the company's good name, good relations between investors and the company, and others.

The Effect of Personal Financial Need on Fraudulent Financial Statements

Personal financial need is a situation where the company's finances are also influenced by the personal financial conditions of company executives (Utomo, 2018). Based on the results of the hypothesis testing that has been done, it can be seen that the personal financial need variable has no significant effect on fraudulent financial reporting. this is in line with research conducted by Widarti, (2015) which states that personal financial need has no effect on fraudulent financial reporting. this can be because the financial level of the shareholders does not depend on the company's financial condition so that the potential for fraudulent financial statements is low.

However, this research is in contrast to research conducted by Nugraheni & Triatmoko, (2017) which states that personal financial need influences fraudulent financial reporting. This can be due to the research results of Nugraheni & Triatmoko, (2017) the maximum value of share ownership reaches 0.72 or 72% so that it can result in fraudulent financial statements committed by shareholders because financial conditions are tied to the company's financial conditions.

The Effect of Financial Targets on Fraudulent Financial Statements

Financial targets are financial targets that must be achieved by management within the period determined by the shareholders (Purnama & Astika, 2022). Based on the results of the hypothesis testing that has been done, it can be seen that the financial target variable does not have a significant effect on fraudulent financial reporting. this is in line with research conducted by Kurnia & Anis, (2017) which states that financial targets have no effect on fraudulent financial statements. this can be caused by an increase in the quality of company operations such as recruiting potential workers, modernizing information systems, as well as the right policy of the directors in solving problems that result in increasing the company's ROA.

However, this research is contrary to research conducted by Prayoga & Sudarmaji, (2019), Nugraheni & Triatmoko, (2017), Rachmania, (2017), Suharsana & Prisiena, (2019), Widarti, (2015), and Yulia (2018) which states that financial targets have an effect on fraudulent financial statements. This could be because management is under intense pressure to achieve financial targets including sales targets or incentives based on profit levels set by those in charge of corporate governance (Renaldo, Suhardjo, Putri, Juventia, et al., 2021).

The Influence of the Nature of Industry on Fraudulent Financial Statements

The nature of industry is the ideal state of a company in the industry (Murtanto & Kusumaningrum, 2016). Based on the results of the hypothesis testing that has been done, it can be seen that the nature of industry variable has no significant effect on fraudulent financial statements. this is in line with research conducted by Widarti, (2015) which states that the nature of industry has no effect on fraudulent financial statements. This could be due to limited accounts that can be used for manipulation so that the potential for fraudulent financial statements decreases in the companies studied.

However, this research is in contrast to research conducted by Yendrawati, Aulia & Prabowo, (2019), and Yulia, (2018) which state that the nature of industry influences fraudulent financial statements. This difference can be caused by research by Yendrawati, Aulia & Prabowo, (2019), and Yulia, (2018) examining manufacturing sector companies that have broader inventory accounts which can increase the potential for fraudulent financial statements when compared to this research which examines sub-sector companies banking and insurance so that the research results are different due to differences in the sectors studied.

The Effect of Ineffective Monitoring on Fraudulent Financial Statements

Ineffective monitoring is a situation where a company does not have or lacks an effective supervisory unit in monitoring company performance (Rachmania, 2017). Based on the results of the hypothesis testing that has been done, it can be seen that the ineffective monitoring variable has no significant effect on fraudulent financial reporting. this is in line with research conducted by Widarti, (2015) which states that ineffective monitoring has no effect on fraudulent financial reporting. this may indicate that the large number of commissioners cannot prevent fraudulent financial reporting. This can be because the company recruits members of the board of commissioners only as a condition of fulfilling good corporate governance without regard to effectiveness in carrying out responsibilities.

However, this research is in contrast to research conducted by Prayoga & Sudarmaji, (2019) which states that ineffective monitoring has an effect on fraudulent financial reporting. This difference can be caused by Prayoga & Sudarmaji's research, (2019) only using 19 samples from 35 populations, while this study used 55 samples from 59 populations so that the research results were different due to differences in sample conditions.

The Effect of Rationalization on Fraudulent Financial Statements

Rationalization is an attitude and character over a series of ethical values that allow certain parties to commit fraudulent acts, and assume that the actions taken are not wrong (Zahro, Diana & Mawardi, 2018). Based on the results of the hypothesis testing that has been done, it can be seen that the rationalization variable has no significant effect on fraudulent financial statements. This is in line with research conducted by Kurnia & Anis, (2017) which states that rationalization has no effect on fraudulent financial statements. This can be caused because the company is dissatisfied with the performance of the independent auditor so that it changes the auditor for the benefit of improving the company's performance in the future.

However, this research is in contrast to research conducted by Rachmania, (2017) which states that rationalization has an effect on fraudulent financial statements. the potential for financial statement fraud will increase if the company is dissatisfied with the performance of the auditor who cannot be intervened or influenced by the company in manipulating the results of the audit.

CONCLUSION

Conclusion

This research was conducted to determine and analyze the effect of the variables Financial Stability, External Pressure, Personal Financial Need, Financial Target, Nature of Industry, Ineffective Monitoring and Auditor Change on financial statement fraud (Empirical Studies on Banking and Insurance Subsector Companies Listed on the Indonesia Stock Exchange Year 2017 – 2021).

Based on the description, hypothesis testing, results of data analysis and discussion that have been described, the results of the research can be drawn as follows: (1) The Financial Stability variable has a significant effect on fraudulent financial reporting in banking and insurance sub-sector companies listed on the Indonesian Stock Exchange in 2017 – 2021. (2) The External Pressure variable has a significant effect on financial statement fraud in banking and insurance sub-sector companies listed on the Indonesian Stock Exchange in 2017 – 2021. (3) Personal Financial Need variable does not have a significant effect on financial statement fraud in banking sub-sector companies and insurance listed on the Indonesian Stock Exchange in 2017 – 2021. (4) The Financial Target variable has no significant effect on fraudulent financial statements in banking and insurance sub-sector companies listed on the Indonesian Stock Exchange in 2017 – 2021. (5) Nature of Industry Variable did not have a significant effect on financial statement fraud in banking and insurance sub-sector companies listed on the Indonesian stock exchange in 2017 – 2021. (6) Ineffective Monitoring Variable had no significant effect on financial statement fraud in banking and insurance sub-sector companies listed on the Indonesian stock exchange in 2017 – 2021. (7) The Rationalization variable has no significant effect on fraudulent financial reports in banking and insurance sub-sector companies listed on the Indonesian stock exchange in 2017 – 2021.

Limitation

This study has several limitations that can be refined by further researchers to produce more complex research results. Some of the limitations in this study are as follows: (1) This research was only conducted in the banking and insurance sub-sectors, so it cannot be applied to other industrial sectors. (2) The time period in this study is relatively short so it cannot be used as an average comparison for other industrial sectors. (3) The rationalization variable tested using auditor change does not consider the reason for the auditor change. If the auditor resigns, the potential for fraudulent financial statements will decrease. (4) The results of the test for the coefficient of determination (Adjusted R2) which is very small indicates that there are other independent variables outside of this study that have more influence on fraudulent financial reporting.

Recommendation

Based on the research that has been done, there are several suggestions to be conveyed as follows: (1) For further researchers, it is hoped that they can expand the period of observation of financial statements and use other industrial sector company objects that have not been studied in order to produce different research data so that it can be used as a comparison for further research. (2) Future researchers are expected to be able to use other variables because the results of the coefficient of determination test (Adjusted R2) show that the contribution of the variables used in this study is very small, such as bonus compensation (Suhardjo et al., 2022), Nature of Religious Leaders (Sudarno, Priyono, et al., 2022), earnings management (Renaldo, Suharti, et al., 2022; Sudarno, Renaldo, Veronica, et al., 2022), cyberloafing (Nyoto, Sudarno, et al., 2023), work complexity (William & Anton, 2019), tax policy (Walettina & Anton, 2022), capital intensity (Anton et al., 2022), etc. (3) Companies are expected to be able to improve the internal control system (Renaldo et al., 2020b; Renaldo, Sudarno, Hutahuruk, et al., 2021) and exercise control by analyzing financial conditions prior to fraudulent financial reporting. (4) Institutions

and academic institutions are expected to be able to develop theories and studies regarding factors that can lead to fraudulent financial statements so that they can assist companies and auditors in detecting, preventing and dealing with fraudulent financial statements.

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