

CHAPTER I

INTRODUCTION

1.1 Background of Study

Financial statements serve as a vital instrument for assessing a company's financial performance, often regarded as the essence of its operations. Consequently, numerous organizations strive to produce financial reports that exhibit stability and an appealing presentation. A company's financial stability is typically characterized by its effective and efficient functioning, as well as its resilience to both internal and external challenges, ensuring that cost allocation aligns with financial growth. A well-prepared and stable financial report enhances the company's reputation. Moreover, the provision of comprehensive and precise financial reports facilitates access to pertinent and beneficial information for various stakeholders, including investors, shareholders, lenders, employees, suppliers, other business creditors, customers, and government entities. Financial statements comprise three essential components, which, if not managed appropriately, can significantly impact the organization: the balance sheet, the income statement, and the cash flow statement. The balance sheet provides insights into the company's assets, liabilities, and equity, while the income statement reflects the company's operational performance, and the cash flow statement monitors the inflow and outflow of cash within the organization.

In making a financial report requires several roles of company actors and all of them are equal in the sense that there is no most important company actor or not all of them are important and interconnected. Each actor has specific responsibilities, and cooperation and communication between each other is very important to produce accurate, relevant and reliable financial reports. Several actors play a role in the preparation of financial statements. Accountants who record transactions, keep journals and prepare the 3 components of financial statements mentioned earlier. Internal auditors who check that all transactions and reports are free from material errors. Sometimes internal auditors may also make recommendations for improvements to the internal control system. In compliance with accounting requirements, external auditors carry out audits. For both internal and external parties, the data presented in the financial accounts is crucial for making financial choices (Felicya & Sutrisno, 2020). Therefore, in order to make well-informed judgments using the financial data that has been presented, stakeholders must also take part in the analysis of the financial statements.

Nowadays, global competition is fierce, and financial statements are one of the most influential keys in the survival of a company. After the covid-19 2020 incident, many companies did not survive and eventually collapsed. This is where the importance of the role of financial system stability monitoring in preventing an economic crisis which could adversely affect society and financial markets. After then, management works in a number of ways to raise the company's worth, one of which is fraud. This is the main factor that encourages the practice of report manipulation or also known as financial statement fraud. Manipulation can be

defined as changing information through changes in the form of additions and deletions, as well as effective and efficient use of privileges (Nurul & Fitria, 2023). Among the several businesses that engage in financial statement fraud.

According to a 2019 survey by the Association of Certified Fraud Examiners (ACFE) Indonesia, financial statement fraud came in last place with a 6.7% rating. Corrupt practices, with a percentage of 64.4%, were in first place, while asset abuse came in second with a presentation of 28.9%. Based on the current poll findings presented in the Report to the Nation 2022, financial statement fraud is still placed bottom at 9%. Financial statement fraud has the biggest average loss even if it ranks lowest in terms of occupational fraud rate, which is \$593,000. If converted in accordance with the exchange rate of December 31, 2022, to Rp 9,196,244,000.

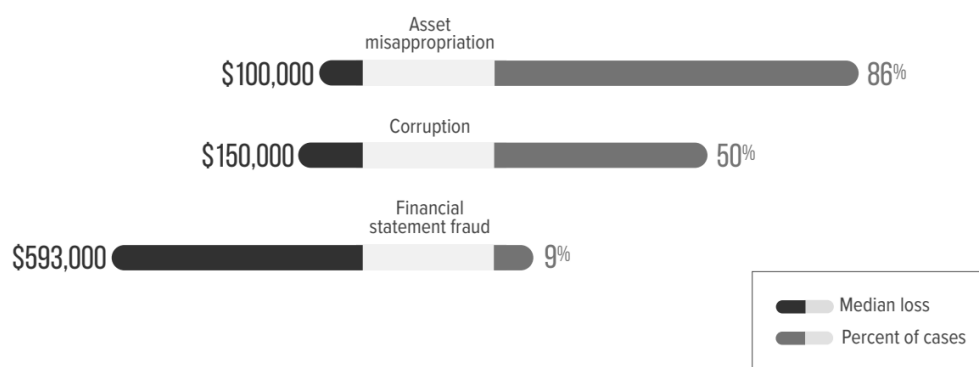


Figure 1.1 ACFE Report to the Nations 2022

When viewed from the ICP Index, Indonesia itself is still a country with an economy that is still unstable, so there are many triggers for companies to commit fraud. Indonesia itself is still a country that does not escape the name of financial

manipulation cases. Here are some examples of fraud cases in Indonesia starting from PT Bumi Resources Tbk. Research conducted in 2019-2023 showed an attempt to manipulate the financial statements of PT Bumi Resources Tbk. Based on research results (Christian et al., 2024) PT Bumi Resources Tbk had experienced a significant decline in the company's operating cash flow until 2022. Then, there was a slight recovery in 2023 but still showed weakness in generating cash from core operations. Similarly, the company's current liabilities increased until 2021 and then decreased in 2022 and 2023. It is evident that the company undertook efforts to address the liquidity pressures it encountered. The manipulation effort was carried out by committing cash flow crimes, such as drastic changes in capital expenditure figures and postponement of liability repayments to increase its operating cash flow.

In 2017 there was also a case of financial statement manipulation occurred at PT Garuda Indonesia Tbk, which was officially declared unlawful on June 28, 2019. This fraud case at PT Garuda Indonesia involved numerous irregularities that led to substantial losses for both the company and the state. The case began with reports that Garuda Indonesia manipulated its 2018 financial statements, recording a profit of \$809,000 when, in fact, it should have reported a loss of approximately \$244 million (Prayoga & Purwanti, 2020). One of the questionable sources of income was a contract with Mahata Aero Teknologi, a company offering in-flight Wi-Fi services. Garuda recorded revenue of \$239 million from this contract, even though the payment had not yet been fully received. This manipulation was carried out by recognizing revenue from a business contract that was not yet fully effective.

Otoritas Jasa Keuangan (OJK) also closely monitored this financial statement manipulation, as it impacted investor confidence in the capital market and the trust of shareholders. PT Garuda Indonesia recognized this income prematurely, PT Garuda Indonesia Tbk was therefore subject to administrative sanctions in the form of an IDR 100 million fine after it was determined that it had breached OJK Regulation Number 29/POJK.04/2016 regarding Annual Reports of Issuers or Public Companies. Additionally, PT Garuda Indonesia Tbk's Board of Directors members were penalized for breaking Bapepam Regulation Number VIII.G.11, which addresses the Directors' Responsibility for Financial Reports.

Energy is essential for sustaining the industrial, transportation, and agricultural processes that drive global economic growth as well as for supplying basic human needs. Research of Yana et al., (2021) said that a country's economic development depends on a stable energy supply that meets all major needs. Significant returns can be obtained by investing in energy stocks, particularly if government regulations encourage the advancement of energy efficiency and renewable energy technology. Because of this, one of the most alluring industries for investors on the Indonesia Stock Exchange (IDX) is the energy sector. This is because, given that energy consumption is still rising in tandem with economic expansion, the outlook for energy stocks is quite bright. However, it has also been demonstrated that, when analyzed using the Beneish M-Score, several companies in the energy industry are frequently implicated in fraud instances.

Table 1.1 The Phenomena of Financial Stability, External Pressure, Financial Target, Firm Size, Liquidity and Financial Statement Fraud in Energy Sector listed on the Indonesia Stock Exchange from the period of 2015-2023

Company	Year	ACHANGE	DER	ROA	FZ	LIQ	M-SCORE
PT Elnusa Tbk (ELSA)	2015	0.0342	0.6726	0.0852	15.2988	0.0467	-2.6641
	2016	-0.0517	0.4563	0.0742	15.2484	0.0422	-2.5862
	2017	0.1368	0.5909	0.0509	15.3956	0.0508	-2.0935
	2018	0.1418	0.7142	0.0488	15.5485	0.0608	-2.3638
	2019	0.1687	0.9026	0.0524	15.7332	0.0605	-2.1551
	2020	0.1002	1.0216	0.0329	15.8388	0.0713	-2.8505
	2021	-0.0453	0.9149	0.0150	15.7944	0.0809	-3.3621
	2022	0.1812	1.1461	0.0428	15.9944	0.0690	-2.3836
	2023	0.0797	1.1742	0.0524	16.0774	0.0583	-3.0101
PT Humpuss Intermoda Transportasi Tbk (HITS)	2015	0.1628	5.9803	0.0220	14.5017	0.9336	-3.5414
	2016	0.1071	3.7148	0.0159	14.6150	1.1201	-1.4381
	2017	0.0653	3.2288	0.0399	14.6826	0.6108	-3.0584
	2018	0.1639	2.6995	0.0610	14.8616	0.6841	-2.9587
	2019	-0.0091	2.2389	0.0530	14.8525	0.5483	-1.5815
	2020	0.0917	2.2786	0.0196	14.9487	1.1042	-2.5484
	2021	0.0250	2.5193	-0.0625	14.9741	2.2570	-2.0577
	2022	0.1078	1.8818	0.0342	15.0882	4.1188	-3.5243
	2023	0.1478	1.5217	0.0201	15.2482	4.3089	-1.3486
PT Rukun Raharja Tbk (RAJA)	2015	0.2217	0.8026	0.0520	14.5522	2.1961	-2.1348
	2016	-0.0676	0.5873	0.0448	14.4868	1.4528	-2.3478
	2017	0.0409	0.2518	0.0775	14.5285	1.9700	-0.8867
	2018	0.2598	0.4504	0.0598	14.8294	2.5956	-1.8507
	2019	-0.1039	0.4706	0.0316	14.7306	3.2258	-2.3526
	2020	-0.0758	0.3521	0.0083	14.6575	1.7599	-3.6598
	2021	0.3366	0.9628	0.0092	15.0679	1.4726	-2.6732
	2022	0.1351	0.9579	0.0339	15.2131	1.0928	-3.9724
	2023	0.2014	1.1266	0.0779	15.4380	0.9312	-3.1621

Source: Prepared by the Writer (2024)

Table 1.1 provides a comprehensive overview of independent variable, which is Asset Change Ratio (ACHANGE), using the dependent variable of Beneish M-Score, the control variables of Debt-to-Equity Ratio (DER), Return on Assets (ROA), Firm Size, Liquidity, and to determine if financial statement fraud

is present in the firms. pertaining to companies in the energy sector that were listed between 2015 and March 2023 on the Indonesia Stock Exchange. By conforming to the current theoretical framework and industry-specific phenomena, the data highlights what should be regarded as financial stability, external pressure, financial objectives, business size, and liquidity towards financial statement fraud. The businesses listed above are a few outcomes of the samples that the researchers investigated. The examiner selected these three businesses because, although fraud instances were uncommon there, there was a propensity.

The Beneish M-Score criteria states that a company is considered to be committing fraud if -2.22 is less than the Beneish M-score (Beneish et al., 2012). On the other hand, if the score is less than -2.22, the business is considered non-fraudulent. Based on the data provided, there have been several years where these 3 companies have been detected as possibly committing fraud. It appears that the three companies are inconsistent in making financial reports because there have been several years in which no fraud has been detected and some in which fraud has been detected.

Based on Table 1.1, during the period from 2015 to 2023, Financial statement fraud may have been committed by PT Elnusa Tbk (IDX: ELSA). According to the Beneish M-Score values, this firm has a significant indicator of possible involvement in financial statement fraud. During 2015, 2016, 2018, 2020, 2021, 2022 and 2023, the company's Beneish M-Score consistently remained below -2.22, approximately between -2.3 and -3.0. However, in 2017, and 2019,

the Beneish M-Score rose to -2.0935 and -2.1551, respectively. When assessed based on the company's financial stability, PT Elnusa Tbk shows a probability of committing fraud when the proportion of ACHANGE rises below that of the prior year. A increase in ACHANGE compared to the previous year can indicate an anomaly or a potential risk associated with fraud.

Next is PT Humpuss Intermoda Transportasi Tbk (IDX: HITS). According to the table above, this company was detected to have a likelihood of financial statement fraud in 2016, 2019, 2021 and 2013 (with Beneish M-Score values of --1.4381, -1.5815, -2.0577 and -1.3486). Unlike the previous company, this company was detected to fraud when the ACHANGE experienced a large decline from the previous year. However, from 2022 to 2023, the company experienced an increase in the ACHANGE percentage but detected the possibility of committing financial statement fraud in 2023.

PT Rukun Raharja Tbk (IDX: RAJA) was also detected as potentially engaging in financial statement fraud during the study period, specifically in 2015, 2017 and 2018 (with Beneish M-Score values of -2.1348, -0.8867 and -1.8507). PT Rukun Raharja Tbk also was detected as potentially involved in fraud when the ACHANGE value increased. Although the increase remains relatively moderate and not drastic compared to other years, financial statement fraud may occur, The Beneish M-Score says so. Thus, the purpose of this study is to determine if financial stability has a major positive or negative impact on financial statement fraud.

Until now, the government continues to research and develop ways to anticipate financial statement fraud. And the following are the most common things associated with weak corporate governance in a company. Good Corporate Governance Principles itself means accountability, transparency, equality, fairness, independence, and responsibility in preparing financial statements (Herawaty & Hernando, 2020). In this case, the authors decided to use financial statement fraud as the dependent variable and financial stability as the independent variable in this case study. A quantitative method is the strategy the researcher used to conduct this study. The secondary data used in this study was gathered from S&P Capital IQ, whose financial reports were released by the Indonesia Stock Exchange (IDX). To find out if financial stability affects false financial reporting, this study uses multiple linear regression, hypothesis testing, and the coefficient of determination. There is still a degree of uncertainty in the results, with conflicting findings on whether financial stability has a positive significant impact on the incidence of financial reporting fraud, based on previous study, such as that conducted by Situngkir (2020). However, when viewed from Afiah & Aulia (2020) that financial stability has a negative significant effect on fraudulent financial reporting. Many previous researchers examined companies that experienced profits during the period studied because it was felt that there was manipulation of financial statements so that the reports looked good and never experienced losses. Meanwhile, the researcher tested all net income status, both profit and nonprofit, during the specified period because researchers focus on financial stability, not on the company's net income. Moreover, while most previous studies combined

continuous variables with dummy variables this study only focused on continuous variables. The goal is for researchers to focus on the company's financial cycle not on stakeholders or audit quality and avoid misplacement of values on dummy variables.

Finally, pressure is recognized as a fundamental factor in fraud theory development, with financial stability emerging as a particularly influential aspect among the various factors identified. Therefore, this research concentrates on financial stability, whereas other variables are treated as control variables. Differences in fraud theories applied in prior research contribute to varying findings on financial stability's impact, including both significant and insignificant, as well as positive and negative, effects. This study aims to isolate financial stability's effect while using other variables solely as controls.

The research gap according to the author is where there are different expectations from reality so that many auditors do not pay attention to these details.

1. People who commit fraud are not only individuals but groups.
2. Fraud perpetrators do not all have a criminal background but tend to be insiders who are very familiar with the company's flow.
3. Fraud does not necessarily require advanced technology; as long as the individual has access, it becomes much easier for them to carry out fraudulent activities.
4. Not always companies with good corporate governance will avoid fraud.

5. The impact caused by fraud not only affects the company's reputation but will lose trust and be sanctioned by criminal law.

The researcher chose to carry out this study in order to determine the true impact of financial stability on financial statement fraud in energy sector firms listed on the Indonesia Stock Exchange, based on the aforementioned phenomena and prior research. "The Effect of Financial Stability on Financial Statement Fraud".

1.2 Problem Formulation

1. This paper's issue formulation, which is based on the study's background, is:
Does financial stability has an effect on financial statement fraud in energy sector companies listed on the Indonesia Stock Exchange (IDX) between 2015-2023?

1.3 Objectives of The Research

The goal of this research, as stated in the problem formulation above, is to empirically demonstrate the substantial impact of financial stability on financial statement fraud in energy sector companies that are listed on the Indonesia Stock Exchange (IDX) between 2015 and 2023.

1.4 Benefit of The Research

1.4.1 Theoretical Benefit

The research should produce advantages that can improve comprehension and expertise regarding spotting financial statement fraud, depending on its goals or objectives. This essay makes use of a hypothesis called the Fraud Triangle hypothesis, which was put out by Cressey in 1953. The sole variable that the author chooses is financial stability as a stand-in for financial statement fraud detection.

1.4.2 Practical Benefit

1.4.2.1 For Investors

The purpose of this study is to provide insightful information about how the fraud pentagon framework affects financial statement fraud, which investors may take into account when assessing businesses as possible investment opportunities, especially those in the energy industry. Additionally, this study hopes to be a resource for investors, giving them the knowledge they need to recognize and assess any possibility of false financial reporting in a business. Investors may be better able to evaluate the accuracy of financial accounts and make well-informed judgments thanks to these discoveries presented by companies in this sector.

1.4.2.1 For Companies

This research delivers crucial insights to improve the financial strategy of companies and aims to guide management in presenting precise financial reports, thereby reducing potential conflicts among the company, shareholders, investors, the public, and other stakeholders. It also seeks to optimize factors that might

influence a company's inclination toward fraudulent practices. Additionally, the empirical findings in this research enable companies to make more prudent financial choices, helping them preserve the confidence of investors and other external parties.

1.4.2.2 For The Next Researchers

Through this research, it is hoped that it can become a reference for further authors and as a means of developing knowledge that is theoretically learned in lectures. It is also hoped that it can implement the author's knowledge in researching fraudulent financial reporting.

1.5 Problem Limitations

The problem limitations in this research Considering the context and the phenomena that have been explained are:

1. The Fraud Triangle Theory, which identifies three (three) components that set off the causes of fraud, is the fraud assessment theory employed in this work. These triggers consist of opportunity, pressure, and justification.
2. Financial stability serves as the independent variable in this work.
3. Companies in the energy sector that were listed between 2015 and 2023 on the Indonesia Stock Exchange (IDX) are the subject of the study.
4. The quantitative approach was used as the research methodology in this study.