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Original Research Article

Financial Target, External Pressure, and Ineffective Monitoring: How Do The Impacts On Financial Statement Fraud?

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Abstract

This study aims to determine whether Financial Target, External Pressure, and Ineffective monitoring can influence managers in conducting Financial Statement Fraud. A total of 7 food and beverage companies are listed on the Indonesia Stock Exchange for the period 2015 - 2019. This study uses purposive sampling as a sampling technique and documentation as a data collection technique. The data that has been collected is then analyzed by multiple linear regression analysis. The results of hypothesis testing show that (1) financial targets have no effect on financial statement fraud, (2) external pressure has no effect on financial statement fraud, (3) ineffective monitoring has no effect on financial statement fraud, and (4) financial targets, external pressure, and ineffective monitoring simultaneously affect the financial statement fraud.

Keywords: Financial Target, External Pressure, Ineffective Monitoring, Financial Statement Fraud.

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INTRODUCTION

Business competition makes companies compete with each other to reflect the company's performance that is visible in front of shareholders, investors, potential investors, public, and the government. Financial reports become a tool to provide a visualization of the company's performance to external parties within a certain period (Reskino & Anshori, 2016). This happens because financial statements contain important information about the company's financial condition which is also used by readers of financial statements to assist them in making decisions or actions.

Financial statements that experienced a slight loss are believed to also describe the company's good performance as well. This can create loopholes and opportunities for management to prepare financial statements fraudulently by manipulating the information. Deliberate fraud in the presentation of the financial statements is called fraud *(Pebruary et al.*, 2020:59). Fraud is carried out because management wants to report good financial results and impress its users so that it can increase stock prices to be higher (Tuanakotta, 2015:195).

Fraud is defined as the misuse of asset resources for personal gain (Association of Certified Fraud Examiners, 2019). In general, fraud occurs because of the pressure faced by management to show the company's performance in various ways, one of which is manipulating the information in the financial statements. Fraud by type is divided into Corruption, Misappropriation of Assets, and Errors in Financial Statements (Pebruary *et al.*, 2020:61). Of the three categories of fraud, financial statement fraud has the smallest percentage compared to asset misappropriation and corruption. Many factors can influence management to commit fraud in financial statements, some of which are Financial Targets, External Pressure, and Ineffective Monitoring.

Financial Target is a profit level target that must be achieved by management in the next period (Richmayati *et al.*, 2018). The greater the level of company profits, the better the company's performance. This target can be an impetus for management to commit fraud by engineering an increase in profits from the previous year so that it shows good performance to external parties. Furthermore, external pressure is pressure to meet the expectations of parties outside the company (Yesiariani & Rahayu, 2016). When the company has a high debt value, the company is considered to have high debt and credit risk. This can influence management to commit fraud by manipulating the amount of debt so that investors assume that the company is running well. Finally, ineffective monitoring is a situation where the company experiences poor internal control conditions. This can occur due to the existence of one member or group that dominates management without compensation control, ineffective supervision of the board of directors and audit committee on the process of internal control and financial reporting. In this case, ineffective monitoring can be proxied by the effectiveness of supervision and control environment (Putri *et al*., 2017).

Association of Certified Fraud Examiners (ACFE) (2019) proves that financial statement fraud needs serious attention. One of the cases revealed in Indonesia is the case of PT. Tiga Pilar Sejahtera Food (AISA) manipulated its financial statements. Fraud committed by PT. AISA is a representation of one of the conditions in the fraud triangle theory. The Fraud Triangle is one theory that describes the three conditions that cause fraud in financial statements (Abdullahi & Mansor, 2018). In Statement of Auditing (SAS) No. 99 explained that there are factors that cause fraud to occur, namely pressure, opportunity, and rationalization (Tuanakotta, 2018:207).

There are several studies on financial statement fraud that give mixed results. The results of research from Sari (2016) which state that External Pressure has an effect on Financial Statement Fraud, while Financial Target and Ineffective Monitoring have no effect on these variables. The results of a study from Indriani and Terzaghi (2017) which state that External Pressure, Financial Targets, and Ineffective Monitoring do not affect management's financial statement fraud. Different results are evidenced by Fajri (2018) stated that External Pressure had an influence on the Financial Statement Fraud, while Financial Target and Ineffective Monitoring had no effect.

During the Covid-19 pandemic, the food and beverage industry became the largest sector that contributed to the export value of the manufacturing sector amounting to USD 13.37 billion (Kemenperin, 2020). On that basis, researchers are interested in making the food and beverage industry the object of study. This is because the flow of competition and the operational complexity of this sub-sector is quite high. This study aims 1) To find out whether Financial Target can influence management in conducting Financial Statement Fraud, 2) To find out whether External Pressure can affect management in conducting Financial Statement Fraud, 3) To find out whether Ineffective Monitoring can affect management in conducting Financial Statement Fraud, and 4) To find out whether Financial Targets, External Pressure, and Ineffective Monitoring can affect management in conducting Financial Statements Fraud.

LITERATURE REVIEW AND HYPOTHESES

Agency theory

Agency theory discusses contracts between shareholders (principals) involving other people (agents) to perform services on their behalf which involves delegating decision-making authority to agents (Supriyono, 2018:63). Stakeholders expect high returns for the investments they make (Wahyudin & Solikhah, 2017). While the agent wants a large compensation for its performance. This can lead to information asymmetry. Information asymmetry is triggered by a condition where managers as company managers or information agents understand more about the company's internal conditions than information principals (Wulandari & Suryandari, 2016).

This agency theory is related to the tendency of managers to commit financial statement fraud. The difference in interest creates a conflict of interest. Therefore, information asymmetry arises between the agent and the principal. This happens because of an imbalance in receiving information between management as a party who understands the condition of the company better than external parties. With the imbalance of information obtained, it makes it easier for management to cover up important information that is not known by external parties so as to encourage managers to commit fraud (Ratnasari & Solikhah, 2019). Based on agency theory, conflict of interest can be the cause of managers to commit fraudulent financial statements or fraudulent financial statements to external parties due to information asymmetry and differences in goals to be achieved between management and external parties that harm the related parties.

Fraud Triangle Theory

Fraud triangle is a scheme or idea in observing the causes of fraud. The Fraud Triangle has several stages, including pressure, opportunity, and rationalization (Ardiyani & Utaminingsih, 2015; Tuanakotta, 2018:207). These stages are said to be able to influence managers in committing fraud in the company's financial statements. Pressure can arise if management is under pressure in the form of a target profit level which is expected to increase and pressure from external parties in the hope that the company will provide greater profits. This is a trigger for management to manipulate financial statements with the aim that the company still gets a high share price when the company experiences a decline in its performance (Ardiyani & Utaminingsih, 2015). In addition, the opportunity factor is supported by the ineffectiveness of internal control which causes management to be more free to commit fraud without worrying about monitoring misstatements in the financial statements (Rengganis *et al*., 2019). The last factor where Rationalization or justification is carried out by management by seeking alibis as a form of self-defense so that fraudulent actions are considered reasonable by management.

Financial Target

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Financial targets is excessive pressure on management to achieve the company's financial targets. In one period, management must set financial targets to be achieved. Because the value of this target is the comparison between the performance of the previous year and this year. This can also be the basis for managers to commit fraud. Managers deliberately set financial targets or manipulate high profits so that the company's performance is reflected well. Target setting pressure does not only arise when the company's financial condition is in crisis, but it can also be when the company wants to expect an increase in its performance (Sari & Rofi, 2020). By manipulating earnings in the financial statements, it is hoped that managers will continue to compete and still attract investors to invest their assets in the company.

External Pressure

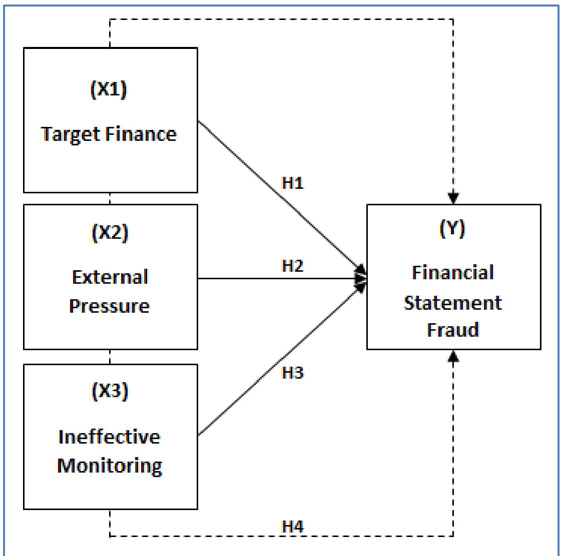
External pressure is excessive pressure from parties outside management in order to meet the expectations of outsiders. This pressure arises when companies face the level of expectations from third parties, it makes managers try to show the best performance for outsiders. To overcome this, the company needs additional debt or other sources of financing to keep the company competitive in the stock market. External pressure can come from the company's ability to pay its debts (Annisya *et al.*, 2016). In addition, managers have the potential to have pressure to raise additional debt or capital.

Ineffective Monitoring

*Ineffective Monitoring*is a condition where internal control activities are not running optimally or not running effectively. Companies with poor internal control may be indicated to commit fraudulent acts. Ineffective internal control can be one of the factors for fraud (Pebruary *et al*, 2020:91). With the ineffectiveness of internal control, the manager's opportunity to commit fraud is getting bigger because of this ineffectiveness.

Financial Statement Fraud

Financial statement fraud is a scheme carried out by someone who intentionally causes misstatements and omissions that affect the materiality of the information in the financial statements (ACFE, 2019). Financial statement fraud is carried out because of strong pressure so that management shows performance that is able to satisfy all parties. Therefore, when a problem arises that causes the company's performance to decline, management will do everything possible to cover it up, including manipulating financial statements. Generally, fraud that is often done is by manipulating the profit value of the company.



Picture-1. *conceptual framework*

Hypothesis

Financial targets are financial targets set by management for the next period. In carrying out its operations, management is required to continue to increase profit. Because, high profits describe the company's performance well. The amount of profit obtained indicates that the company's performance and internal control are running very well. It is undeniable that the pressure on high financial targets allows management to engineer its financial statements to match the set targets. Return on Assets (ROA) is often used to assess company performance. In addition, ROA can also show how efficiently assets have worked for the company. Research conducted by Sari (2016) shows that ROA has an influence on fraud committed by management. When the profit earned shows a low value, while the profit target is set too high, this can motivate management to commit fraud. This is because the pressure to achieve the profit target becomes very large because the profits reported in the financial statements can influence investors in making decisions before investing.

H1: Financial Target affects the Financial Statement Fraud in Food and Beverage sub-sector manufacturing companies in 2015-2019.

External pressure is a condition where management gets excessive pressure from external to the company. To get the attention of creditors and investors, companies must display better financial ratios and profit performance. This can convince creditors and investors to provide an injection of funds to the company. Therefore, management is compelled to manipulate its financial statements. The greater the amount of the company's debt, the greater the risk of failing to pay off the debt. So that the potential for management to commit fraud appears. Research conducted by Fajri (2018) and Adnovaldi & Wibowo

(2019) states that external pressure calculated by DAR affects financial statement fraud.

H2: External Pressure affects the Financial Statement Fraud in manufacturing companies in the Food and Beverage sub-sector in 2015-2019.

Ineffective supervision is a condition in which the weakening of supervision causes management to have the opportunity to make deficiencies. This can happen because there is one group that dominates internal control. Thus, supervision becomes ineffective and is able to open up opportunities for management to commit fraud in financial statements in order to obtain personal or group benefits. Research conducted by Prayoga & Sudarmaji (2019) and Putri et al., (2017) which states that ineffective supervision can provide an opportunity for management to commit fraud, because there is no good control between independent commissioners and the board of commissioners.

H3: Ineffective Monitoring affects the Financial Statement Fraud in manufacturing companies in the Food and Beverage sub-sector in 2015-2019.

High expectations and expectations of the company can cause pressure for management. This pressure can encourage management to commit fraud in order to meet the expectations of these external parties. This is supported by the opportunities that arise due to the ineffectiveness of the company's internal controls. The combination of pressure exerted by management with the emergence of opportunities makes fraud easier to commit.

H4: Financial Target, External Pressure and Ineffective monitoring simultaneously affect the Financial Statement Fraud in manufacturing companies in the Food and Beverage sub-sector in 2015-2019.

RESEARCH METHODS

The population in the study was all food and beverage companies listed on the Indonesia Stock Exchange (IDX) in 2015 - 2019 which amounted to 34 companies. The sampling technique used purposive sampling method. The criteria for the companies used as samples in this study are food and beverage companies listed on the IDX, publishing financial reports and annual reports successively in 2015 – 2019, and presenting data according to the variables studied. Based on this method, there were 7 food and beverage manufacturing companies that matched the sampling criteria. The data that has been collected is then analyzed using multiple linear regression analysis with SPSS program.

Variable Operational Definition

***Financial targets* (X1)**

Financial targets are a condition in which the company sets the level of profit that must be obtained for the effort expended to earn that profit. This variable is measured by ROA.

***External Pressure* (X2)**

External pressure is excessive pressure for management to meet the requirements or expectations of third parties which causes the company increased debt or external financing sources to remain competitive. This variable is measured by DAR.

***Ineffective Monitoring* (X3)**

Ineffective monitoring is an ineffective company supervision system that gives managers the opportunity to freely carry out irregularities in financial reporting. This variable is measured by the ratio of the number of independent commissioners to the total number of commissioners.

Financial statement fraud (Y)

Financial statement fraud is a misstatement or fraud committed by managers to fulfill personal interests. This study detects the potential for fraudulent financial statements by using the fraud score model (F-Score). F-Score is the sum of two variables, accrual quality and financial performance. Accrual quality defines all non-cash and non-equity changes in a company's balance sheet. On the other hand, financial performance can be seen through changes in accounts receivable, changes in inventory accounts, changes in cash sales accounts, and changes in earnings before tax and interest. Companies that have an F-Score Model value of more than 1 means that the company has the potential to commit financial statement fraud, and vice versa.

RESEARCH RESULT

Hypothesis Test Results

The results of the H1 test show that there is no influence of financial targets on financial statement fraud with a t-count value of -0.866 and a significance value of 0.394, so it can be concluded that H1 is rejected. The results of the H2 test show that there is an influence of external pressure on financial statement fraud with a t-count value of -3.577 and a significance value of 0.001 so that it can be concluded that H2 is accepted. Furthermore, the results of the H3 test show that ineffective monitoring has no effect on financial statement fraud with a t-count value of 1.054 and a significance value of 0.300, so it can be concluded that H3 is rejected.

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Table-1: Hypothesis Testing Results

Variable		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	75.059	9,237		8.126	0.000
	X1_Financial Target	-0.113	0.131	-0.013	-0.866	0.394
	X2_External Pressure	-0.569	0.159	-0.718	-3,577	0.001
	X3_Ineffective Monitoring	0.166	0.158	0.214	1.054	0.300

Simultaneous Test Results

F test is used to test H4. Based on the test results in table 2, the f-count value is 6.193 and the significance value is 0.002, so it can be concluded that H4 is accepted.

Table-2: F Test Results

Model		Sum of Square	df	Mean Square	F	Sig.
1	Regression	725,380	3	241,793	6,193	0.002
	Residual	1132,228	29	39,042		
	Total	1857,609	32			

Coefficient of Determination Test Results (R2)

Table 3 shows that the adjusted R Square value of 0.327 or 32.7% means that the variation or potential for fraudulent financial statement fraud is 32.7% caused by financial targets, external pressure, ineffective monitoring, while the remaining 67.3% can be caused by variables others not described in this study.

Table-3: Results of the Coefficient of Determination

Model	R	R Square	Adjusted R Square
1	$0{,}625^a$	0.390	0.327

DISCUSSION

The Effect of Financial Targets on Fraud Financial Statements

The results of the study indicate that the financial target does not affect the financial statement fraud by management. The results of this study are in line with research conducted by Wahyuni & Budiwitjaksono (2017). This study shows that large profits can control high stock prices. If the profit earned is high, then investors assume the stock price is also high. High stock prices cause dividend payments to also increase. Therefore, management does not set a profit target that is too high, so that dividend payments are not too high. Research conducted by Yudha Adnovaldi & Wibowo (2019) also showed the same results. Companies that have a high profit value in the previous period will increase the company's profitability in the next period. Thus, management does not need to feel pressured when the company's target is set too high.

Based on agency theory, there are differences in desire and information asymmetry between investors and management to be one of the causes of management committing fraud. The management's desire to get the maximum profit makes the stock price rise, so investors also believe that the higher the stock price, the greater the profit that investors will get. Information asymmetry means that fraud can occur because the information received by investors will be much slower than the information received by management. However, in this study, financial targets cannot trigger management to commit fraud. This can happen management has made efforts to increase profitability and development of the company's operational quality. Companies that have maximized their performance as well as possible will not feel pressure to achieve high profit targets. That way, when management sets a high target, the target can be achieved easily.

Effect of External Pressure on Financial Statement Fraud

The results showed that external pressure affected financial statement fraud. Leverage is a measure of the debt owned by the company. The higher the debt owned by the company, the lower the investor's confidence in the company in obtaining dividends. Investors assume that high debt can affect the dividend income that will be received, because the company will make debt payments using the company's profits so that profits will decrease, as well as the dividend income of investors. There is a big difference in the wishes of investors as principals, causing pressure on the management as agents in agency theory.

The results of this study are in line with research conducted by Fajri (2018) which states that external pressure can affect management in committing fraud. Companies that have high debt can motivate management to commit fraud. The debt ratio is one of the performance measurements that is able to show the ability of the company's assets to pay debts. Therefore, the higher the debt ratio, the lower the profitability of the company. This research is also in line with the results of research conducted by Sari (2016) which proves that External Pressure has an influence on fraudulent actions by management. Companies that have greater leverage are more likely to violate credit agreements. Therefore, higher company's leverage ratio, the credit risk of the company also increases.

Effect of Ineffective Monitoring on Fraud Financial Statements

The results of the study indicate that ineffective monitoring has no effect on fraud in the financial statements carried out by management. In general, companies have independent boards of commissioners and commissioners whose purpose is to oversee the company's operations. Ineffective monitoring is ineffective supervision due to an unbalanced ratio of the number of the board of commissioners and independent commissioners. Ineffective supervision within the company can cause management to easily commit fraud. However, the results of this study state that Ineffective Monitoring has no effect on fraud in the financial statements by management.

The results of this study are in line with research conducted by Damayanti et al., (2017) which states that there is no effect of ineffective supervision on fraud in financial statements. Companies that have a large number of independent commissioners will have an impact on the effectiveness of internal control, resulting in fraud by management. This study also shows similar results to research conducted by Setiawati & Baningrum (2018) which states that there is no effect of Ineffective Monitoring on financial statement fraud. Independent commissioners generally will carry out more objective supervision away from intervention by certain parties so as not to create opportunities for fraud.

Agency theory discusses the information asymmetry that can occur between the board of commissioners from internal companies and independent commissioners from outside the company. This causes the manager to take advantage of the opportunity. The board of commissioners will tend to help maximize by using its authority without monitoring it objectively. This can be minimized by increasing the number of independent commissioners, so that internal control of the company will be more objective and optimal.

Effect of Financial Target, External Pressure, Ineffective Monitoring affect Financial Statement Fraud.

The results of the study indicate that financial targets, external pressure, and ineffective monitoring simultaneously have an effect on fraud in the financial statements carried out by management. Companies need capital in every development, one way is to get capital from the sale of shares. One of the management's efforts to attract investors is to report good things to investors. That way, investors think that the company is suitable for investing.

Profit is something that can attract investors to invest. Investors will generally expect large dividends from previously invested capital. This causes the expectations given to the company to be too high. High expectations or expectations of investors can put pressure on management to continue to report good things to investors. Excessive pressure can motivate and open up opportunities for management to commit fraud due to the company's failure to achieve targets. Efforts to cover the failure can be done by borrowing capital from creditors, so that the value of debt owned by the company will increase. In addition, the opportunity due to the lack of independent commissioners can also cause management to decide to commit fraud.

CONCLUSIONS AND IMPLICATIONS

Financial statement fraud is an attempt by the company's management to deliberately manipulate the information in the company's financial statements. The results of this study prove thatfinancial targets do not affect management fraud, external pressure affects management in fraudulent financial statements, ineffective monitoring does not affect management in fraudulent financial statements. Simultaneous testing shows that the three variables are proven to affect fraud in the financial statements.

In an effort to improve financial performance, companies can pay attention to the importance of budget planning to help companies achieve financial targets in the following year. Budgets can also improve good oversight of the company's internal control. The existence of budget planning will make the level of profit and debt control in the future can be controlled as well as possible so that the financial targets expected by the company will be achieved. In addition, budget planning can also have a good monitoring impact on internal control and can be used as an evaluation tool for the company. Achieved financial targets and increased supervision on internal control are believed to be able to reduce the opportunity for management to commit financial statement fraud.

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