Research Paper

Antesedential Beliefs of Financial Statements and Its Impact on Company Value

Yulianti Karoma, Yohanis Rura, Kartini

[1]*(Master of Accounting, Faculty of Economics, Hasanuddin University)*
[2]*(Lecturer in Master of Accounting, Faculty of Economics, Hasanuddin University)*
[3]*(Lecturer in Master of Accounting, Faculty of Economics, Hasanuddin University)*

ABSTRACT:*This study aims to examine how the effect of Financial Statement Fraud on Firm Value in terms of Antecedent factors proxied in the fraud pentagon with a research sample of 51 manufacturing companies, which are listed on the Indonesia Stock Exchange in 2016-2018. The sample selection used purposive sampling method. Firm value is measured by price book value, fraudulent financial statements are measured by Z-score models. There are four variables that have a negative effect, namely the variable Financial Target, audit quality, change of directors, frequent number of CEO's picture, these four variables represent one of the five elements of the fraud pentagon, on the other hand, one variable changes in auditors does not affect financial statement fraud.*
KEYWORDS*: The value of the company; Financial Report Fraud; Pentagon fraud*

I. INTRODUCTION

The company's financial report is one of the most important information. The importance of information in financial statements because it can describe the condition of the company at a certain time. Especially for public companies, financial statements that are submitted voluntarily are a form of communication and accountability to stakeholders. These stakeholders include: management, company owners, creditors, investors, suppliers, who use the information contained in the financial statements. So business actors are expected to be able to provide information that is truly accurate and relevant so that all parties who will use the information do not feel disadvantaged in making decisions.

Firm value is the investor's perception of the company's success rate in managing its resources at the end of the current year, which is reflected in the company's stock price. The higher the stock price, the higher the company value, on the other hand, the lower the stock price, the lower the company value or the less good company performance. The company value is measured by price to book value (PBV), which is a ratio that measures the value of the company by comparing the share price per share. According to Febrina (2010), company value is a growing value for shareholders, the value of the company will be reflected in the market price of its shares. Firm value according to Rika and Islahudin (2008: 7) is defined as market value. Firm value can provide maximum shareholder wealth if share prices increase.

So companies are competing to advance their respective companies, but under certain conditions the performance results are not as expected, so that it can encourage and force management to manipulate in certain parts, so that the financial statements look good. Then the information presented is inappropriate, which indicates the occurrence of fraudulent practices and will harm various parties because this affects economic decisions. Various parties have been disadvantaged by this action because the information they received was not really accurate and relevant, which is even more disadvantaged, namely the investors because they have made the wrong decision to invest their capital.

Fraud in financial statements is commonly called fraud. The Association of Certified Fraud Examiners (ACFE, 2016) reveals that fraud is any attempt to deceive or deceive other parties with the aim of obtaining personal benefits. Efforts made by the perpetrator of fraud include committing acts that are not in accordance with the law, abuse or fraud. Various accounting scandals that indicate fraud have developed and are a business issue that has captured the public's attention because it is related to accounting information needed by many parties and has a wide impact. An example of a well-known case occurred in the United States, namely the case

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of Enron and the Public Accounting Firm (KAP) Arthur Andersen (2001). Enron was proven to have manipulated financial statements by recording a profit of US $ 600 million even though the company suffered a loss. Profit manipulation is caused by the company's desire to keep investors interested in shares. After this fraud was exposed, as a result Enron went bankrupt, thousands of people lost their jobs. Not only that, the KAP that examined Enron, namely KAP Arthur Andersen, encountered a problem, many clients cut ties and Arthur Andersen was closed. Then, the world of accounting and auditing received a consequence to comply with the regulations stipulated in the Sarbanes-Oxley Act / Sarbox / SOX which further tightened the regulations on financial reporting for public and non-public companies. The moral hazard behavior carried out by Enron was manipulating the profits stated in the financial statements of US $ 600 million when in fact the Enron company suffered a loss. As a result of this fraudulent practice, Enron went bankrupt and left a sizeable debt of US $ 31.2 billion. Not only done by the company, cases of fraudulent financial statements, such as Enron Corporation (Bloomberg, 2001), Worldcom (Tran, 2002), cause huge losses. In response to this, ACFE (2016) nominated financial statement fraud as the most destructive type of fraud.

Financial Statement Fraud is a crucial issue that cannot be underestimated. Various cases of fraud are still occurring today. The role of the auditor profession is needed to detect possible fraud. Auditors must specifically assess the risk of material misstatement in the financial statements as a result of fraud and must consider this risk assessment in designing audit procedures to be performed (Diany, 2014).

The auditor must be able to consider the possibility of fraud by using fraud risk factors from various perspectives. One theory that is still frequently applied by practitioners as an approach to detecting fraud is the fraud triangle theory coined by Cressey (1953). Cressey sparked a theory of fraud which is often known as the fraud triangle theory by categorizing the existence of 3 factors that can influence the occurrence of fraud, namely pressure, opportunity, and attitude / rationalization.

The development of the theory of fraud does not stop there, as time goes on, the theory of fraud is increasingly being equipped. (Wolfe and Hermanson, 2004) come up with a theory*fraud diamond* developed from theory *fraud triangle* Cressey added one element of fraud risk: "ability (*capability)*". This element is capability. This theory is known as the Fraud Diamond Theory. In this theory, the main role of fraud is the characteristics and abilities of the individual. A person cannot commit fraud if he does not have the ability to do so. In accordance with the times, the theory of fraud has also changed. The development of the fraud theory which explains that the element of arrogance is also influential in detecting the occurrence of fraud. Without leaving the elements in the triangle theory. Crowe (2011) refines the theory put forward by Cressey. Crowe found a study that the element of arrogance (arrogance) also affects the occurrence of fraud. Crowe's research includes the fraud triangle theory and competence elements in it, so that the fraud model found by Crowe consists of five indicator elements, namely pressure, opportunity, rationalization, competence.), and arrogance (arrogance). The theory presented by Crowe (2011) is called Crowe's fraud pentagon theory.

This study applies the Crowe's fraud pentagon theory, a theory which explains that there are five elements that underlie a person committing fraud, namely pressure proxied by financial targets, opportunity proxied by audit quality, rationalization proxied by changes in auditors, competence proxied by a change of directors, and arrogance is proxied by the Frequent number of CEO's picture. This theory is the latest theory from the development of the fraud triangle theory put forward by Cressey (1953). Previous research on fraud was still dominated by the fraud triangle model. There is still little research done to discuss this case using Crowe's fraud pentagon theory. Based on the background above,

The theory that supports this research is the agency theory put forward by Jensen and Meckling (1976), namely the contractual relationship between the principal who orders the agent to perform a service on behalf of the principal. Agents have more information than owners, resulting in information asymmetry (Hendriksen, 2001). The difference in vision and mission also creates conflicts within the company. The owner wants a large return, while the agent wants to prosper himself. If the incentive obtained is measured based on the company's performance. The agent will try to display the best data or manipulate financial reports. Therefore, to detect or prevent fraudulent financial reporting due to information asymmetry,

II.   LITERATURE REVIEW

Agency Theory

Agency theory explains the conflict of interest between agents and principals (Jensen and Meckling, 1976). On the one hand, management is required to make strategic decisions that maximize investment returns, in the form of dividend payments and capital gains. On the other hand, management also has a mission to enrich itself (Scott, 2015). As a consequence, management often creates situations and conditions, one of which is by manipulating financial reports, so that bonus incentives can be maximized. Conflicts of interest generate agency costs and monitoring costs. Agency costs are costs incurred, in the form of large salaries, bonuses, and shares, by shareholders to suppress management's desire to commit fraud (Jensen and Meckling, 1976). Meanwhile,

Antecedent Factors

The Pentagon Fraud Theory was developed by Jonathan T. Marks (2009. This theory is a development of the theory of Cressey's Fraud Triangle (1953). Marks considers that in developing conditions, the business environment and changes in human behavior during the last 60 years, three elements of the fraud triangle are pressure (pressure), opportunities (opportunities), rationalization (rationalization) are not sufficient to explain the fraudulent behavior that occurs (Marks, 2014) .Therefore, Marks adds two other important competency elements (competence) and arrogance (arrogance). a new model and way of thinking that became known as the crowe fraud pentagon.

The value of the company

Firm value is the investor's perception of the company's success rate which is often associated with stock prices (Soebiantoro, 2007). The higher the share price, the higher the company value (Hermuningsih, 2012). Firm value is an important concept for investors because firm value is an indicator of how the market assesses a company as a whole (Salvatore, 2005), the goal of a company that goes public is to increase the welfare of its owner through increasing firm value. . Firm value is measured by price book value, which is the market ratio to measure performance by comparing stock market prices with book value (Jogijayanto, 2003).

Definition of Fraud

Cheating is an act against the law. Actions called fraud contain elements of intent, malicious intent, deception, concealment, abuse, trust (violation of trust).

Fraudulent Financial Reports

*Association of Certified Fraud Examiners (2000)*describes Financial Reporting that contains Fraud or financial reporting that contains fraud, as follows.

"Intentional misstatement of the financial condition of an enterprise by means of intentional misstatement or omission of amounts or disclosures in financial statements to deceive users of financial statements."

What is meant by misstatement of the company's financial condition through a false statement due to intentionally or negligence in calculating the amount or negligence in disclosing financial statements in order to deceive report users.

Research Hypothesis

H1 = Financial target has a positive effect on fraudulent financial statements.
H2 = Auditor quality has a negative effect on fraudulent financial statements.
H3 = Changes in auditors have a positive effect on fraudulent financial statements.
H4 = Change of company directors has a positive effect on accounting fraud reports.
H5 = Frequent number of iCEO's picture has a positive effect on fraudulent financial statements
H6 = Fraudulent financial statements have a negative effect on firm value.

III. RESEARCH METHODS

Types of research

This type of research is an association research which is a type of research with problem characteristics in the form of a relationship between two or more variables.

Data types and sources

In this study, the type of data used is quantitative data, using panel data by combining time series and cross section data obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id), and www.financeyahoo.com. . The data collected is in the form of financial reports, daily share prices, and company annual reports from 2015-2018.

Method of collecting data

The data collection technique used is documentation technique. The data collected in this study are secondary data from manufacturing companies listed on the Indonesia Stock Exchange during the study period.

Population and Sample

The population in this study are companies that are classified as companies engaged in manufacturing and listed on the IDX from 2015 to 2018.

Data analysis technique

The data analysis technique used in this research is statistical analysis method using SPSS Statistics 25. Data analysis in this study uses regression analysis.

Normality test

According to Ghozali (2011), "The normality test aims to test whether in the regression model, confounding or residual variables have a normal distribution". The normality test in this study was carried out using the Kolmogorov Smirnov test with a significant level of 0.05 or 5%. The data is said to be normally distributed if the resulting significance is> 0.05.

Heteroscedasticity Test

According to Nawari (2010), "The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another". There are several ways you can do the heteroscedasticity test, namely the plot graph test, Park test, Glejser test, and white test. The basis for decision making is if there is a certain pattern such as dots that form a certain pattern that is drawn (wavy, widened then narrowed) then heteroscedasticity occurs and if there is no clear pattern such as dots that spread above and below the figure. 0 on the Y axis there is no heteroscedasticity.

Multicolonierity Test

According to Sugiyono (2013), "multicoloniarity tests the linear relationship between the independent variables in multiple regression". There are several methods to detect the presence or absence of multicolonierity problems in multiple regression models. The method used is the correlation test, additional regression and the client method. In multicolonierity test research using the correlation test method. Multicolonierity test can be detected by looking at the linear correlation between the independent variables in the regression. If the correlation coefficient is high enough, which is above 0.85, it is assumed that there is multicollinearity in the model and vice versa.

Hypothesis test

The analysis model used to test the hypothesis uses Moderated Regression Analysis (MRA). This regression analysis was carried out in two stages of testing. The first stage is multiple regression which is carried out in the absence of a moderating variable. The second stage is regression which is carried out through the interaction between variables and independent variables. The model developed for this analysis is as follows:

$Y = a + b1X1 + b2X2 + b3X3 + b4X4 + b5X5 + e$

IV.   RESULT

Normality test
Normality test
The statistical normality test was carried out by using the normal probability plot (np plot) test. Based on this figure, the data distribution is around the diagonal line. Therefore, the data collected is stated to meet the normality assumption and can be used to test the hypothesis
 Heteroscedasticity Test
Based on the scatterplot graph, it can be seen that the data (points) are spread out on the zero line and without forming a certain pattern, the data can be said to be free from heteroscedasticity.

Multicolonierity Test

The multicollinearity test aims to test the relationship between independent or independent variables. It is hoped that the independent variables in the multiple regression model are not related to each other so that there is no bias in the results of hypothesis testing. Multicollinearity assumption criteria are based on the tolerance value (> 0.1) and the VIF value (<10). Vice versa, namely the tolerance value (<0.1) and the VIF value (> 10), it can be concluded that multicollinearity occurs. Good research results indicate that there is no multicollinearity in the results of the study. The following are the results of the multicollinearity assumption test.

Heteroscedasticity Test

In the data distribution chart (scatterplot), you can see a graph that does not show a certain pattern and is spread above and below the origin (number 0). So it can be stated that the data collected does not meet the heteroscedasticity element and can be used to test the hypothesis.

Simple Regression Analysis

A. Based on the analysis above, it is known that the financial target is measured by ROA. From the results of the above analysis, it can be concluded that the financial target variable has a negative coefficient value, that a decrease in the financial target will affect the fraudulent financial statements. This can be seen from the regression equation which shows a value of -2,223. That means, every 1% increase in the ratio of total

liabilities to total assets will reduce the risk of fraudulent financial statements by 2,223. The results of this hypothesis testing indicate that the financial target has a significant effect but cannot affect the fraudulent financial statements. This can be seen from the statistically significant value, namely p-value 0.005 <0.05 and it can be seen that the hypothesis in the conceptual framework must have a positive effect.

B. Based on the results of the analysis above, it is known that the quality of auditors has a negative coefficient value, that a decrease in the quality of auditors will affect fraudulent financial statements. This can be seen from the regression equation which shows a value of -1,152. It means, if the value of the auditor quality variable increases by 1% will reduce the risk of financial report fraud by 1,152. The results of this hypothesis testing indicate that the quality of auditors has a negative effect on fraudulent financial statements. This can be seen from the statistically significant value, namely p-value 0.001 <0.05. This happens because manufacturing companies in 2016-2018 in this study have good quality auditor quality, it is proven that most of them have KAP services that are affiliated with KAP-Big ten so that they are able to suppress the occurrence of fraudulent acts of financial statements. The higher the quality of the auditors, the lower the occurrence of fraud.

C. Based on the results of the above analysis, it is known that changes in auditors have a negative coefficient value, that a decrease in auditor quality will affect fraudulent financial statements. This can be seen from the regression equation which shows a value of - .164. That means, every 1% increase in the ratio of total liabilities to total assets will reduce the risk of fraudulent financial statements by 164. This means that there is a change. auditors, the quality of auditors will be better and more able to maintain their independence so that the financial statements will be better. Auditor change can be caused by the company's dissatisfaction with the performance of auditors who perform audits and can also be caused by the policy of the public accounting firm itself. This is because the regression coefficient value shows a negative effect and the value is not sig 0.626.

D. Based on the results of testing the change of directors variable, the results of the above analysis can be concluded that the change of directors variable has a significant negative effect on fraudulent financial statements in manufacturing companies in Indonesia. This is because the regression coefficient value shows a negative effect which is equal to -0,956 That means, if the value of the change of directors variable increases by 1% will reduce the risk of financial statement fraud by 956 and for the value which has a significant effect but cannot affect the fraudulent financial statements, this can be seen from the statistically significant value, namely p-value 0.008 <0.05. This happens because the company's board of directors is a group of people. people who have the competence to carry out the Fraud scheme than other stakeholders in the corporate environment. The board of directors is believed to be capable of committing a fraudulent scheme due to their favorable position and position in company management. Changes in the board of directors may indicate political interests in the management of the company, thus triggering an increase in fraudulent financial statements committed by company management.

E. Based on the results of testing the change of directors variable, the results of the above analysis can be concluded that the change of directors variable has a significant negative effect on fraudulent financial statements in manufacturing companies in Indonesia. This is because the regression coefficient value shows a negative effect, which is equal to -0.604 That means, if the variable value *Frequent number of CEO's* picture increased by 1% will reduce the risk of financial statement fraud by 604 and for the value that has a significant effect but cannot affect the fraudulent financial statements, this can be seen from the statistically significant value, namely p-value 0.008 <0.05 and it can be seen that the hypothesis in the conceptual framework must have a positive effect. , while the results of the SPSS calculation have a negative effect, namely the value of -0.604. This happens because the frequency of appearance of CEO photos in manufacturing companies in 2016-2018 in this study shows a high frequency, this indicates that there is arrogance / superiority that is owned by managers. From these characteristics, managers will usually feel that the existing regulations will not ensnare him,

Intervening Regression Analysis

Pinfluence the company's value on fraudulent financial reports. Based on the test results, the variable of financial statement fraud has a negative effect on firm value. This is because the regression coefficient value shows a negative effect of -0.362 That means, if the value of the change of directors variable increases by 1% will reduce the risk of financial statement fraud by 362 and for the value that has a significant effect but cannot affect the fraudulent financial statements, this can be seen from the statistically significant value, namely the p-value of 0.000 <0.05 and it can be seen that the hypothesis in the conceptual framework must have a positive effect. , while the results of the SPSS calculation have a negative effect, namely the value of -362. The results of this study have proven that companies that have been indicated to have committed fraud have a negative effect on firm value.

V. DISCUSSION

***Financial targets*has a negative effect on fraudulent financial statements**

The first hypothesis based on the test results is rejected, meaning that the lower the ROA value indicates the lower the profit generated so that the company's performance looks bad, so the possibility of financial statement fraud is quite high.

Auditor quality has a negative effect on fraudulent financial statements

The second hypothesis based on the test results is accepted. This means that the better the role of the auditor, the lower the potential for fraud by employees, conversely, the lower the audit quality of a company, the higher the fraudulent financial reporting will be.

Changes in auditors have a negative effect on fraudulent financial statements.

The third hypothesis based on the test results is rejected. This shows that the more often companies change auditors, it means that fraudulent financial reporting in the company will be less likely to be detected, because changes in auditors will of course make new auditors take longer to study the company's financial statements and find out if there are indications of fraudulent financial reporting. in the company

Changes in company directors have a negative effect on fraudulent accounting reports

The fourth hypothesis based on the test results is rejected. This indicates that the amount of change of directors has no effect on fraudulent financial statements. The reason for this finding does not support the hypothesis because of the effective supervision of the board of commissioners on each management performance

***A number of photos of the CEO*has a negative effect on fraudulent financial statements**

This is because the photos of the CEO that are displayed in the annual report are intended to introduce the leader to the public, especially the stakeholders who are the CEOs of the company in the company and many of the photos displayed are mostly photos of the activities carried out by the company to prove that the CEO participated. in every activity carried out by the company so that the public is able to assess the seriousness, tenacity and responsibility of the CEO in leading the company.

Financial reports that contain fraud have a negative effect on firm value

The first hypothesis based on the test results is rejected, meaning that the higher the stock price, the higher the value of a company. If earnings management is negative, the greater the decline in earnings and the smaller the firm value. This phenomenon will indicate the direction of the negative relationship.

VI. CONCLUSION

1. *Financial targets*has a negative effect on fraudulent financial statements.
2. Auditor quality has a negative effect on fraudulent financial statements
3. Changes in auditors have a negative effect on fraudulent financial statements.
4. Changes in company directors have a negative effect on fraudulent accounting reports.
5. *A number of photos of the CEO*has a negative effect on fraudulent financial statements
6. Financial reports that contain fraud have a negative effect on firm value.

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