INSIGHT JOURNAL

Universiti Teknologi MARA Cawangan Johor

International, Refereed, Open Access, Online Journal

Special Issue

Volume 6 2020

Selected papers from the 6th IABC 2019

eISSN: 2600-8564

Indexed in MyJurnal MCC

Abstracted in Asian Digital Library (ADL)

INSIGHT JOURNAL (IJ)
UiTM Cawangan Johor Online Journal Vol. 6: 2020
Special Issue
Selected Papers form IABC2019
eISSN :2600-8564
Published by UiTM Cawangan Johor
insightjournal.my

About

INSIGHT Journal is an online, open access, international refereed research journal established by Universiti Teknologi MARA Cawangan Johor, Malaysia. It is indexed in MyJurnal MCC. Furthermore, it is abstracted in Asian Digital Library (ADL).

INSIGHT Journal focuses on social science and humanities research. The main aim of INSIGHT Journal is to provide an intellectual forum for the publication and dissemination of original work that contributes to the understanding of the main and related disciplines of the following areas: Accounting, Business Management, Law, Information Management, Administrative Science and Policy Studies, Language Studies, Islamic Studies and Education.

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FOREWORD BY DEPUTY RECTOR OF RESEARCH, INDUSTRIAL LINKAGES & ALUMNI

Since 2018, the INSIGHT JOURNAL (IJ) from Universiti Teknologi MARA Cawangan Johor has come up with several biennial publications. Volume 1 and 2 debuted in 2018, followed by Volume 3 this year as well as Volume 4 with 19 published papers due to the great response from authors both in and out of UiTM. Through Insight Journal, lecturers have the ability to publish their research articles and opportunity to share their academic findings. Insight Journal is indexed in MyJurnal MCC and abstracted in Asian Digital Library (ADL). Moreover, is is also an international refereed journal with many international reviewers from prestigious universities appointed as its editorial review board members.

This Volume 6 is the second special issue for the 6th International Accounting and Business Conference (IABC) 2019 held at Indonesia Banking School, Jakarta. The conference was jointly organized by the Universiti Teknologi MARA Cawangan Johor and the Indonesia Banking School Jakarta. Hence, this volume focuses mainly on the accounting and business research papers compiled from this conference, which was considered a huge success as over 66 full papers were presented.

Lastly, I would like to thank the Rector of UiTM Johor, Associate Professor Dr. Ahmad Naqiyuddin Bakar for his distinctive support, IJ Managing Editor for this issue Dr. Noriah Ismail, IJ Assistant Managing Editor, Fazdillah Md Kassim well as all the reviewers and editors who have contributed in the publication of this special issue.

Thank you.

ASSOCIATE PROFESSOR DR. SAUNAH ZAINON
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INSIGHT JOURNAL
Universiti Teknologi MARA Cawangan Johor

INSIGHT JOURNAL Volume 6
Published by UiTM Cawangan Johor, Malaysia
eISSN 2600-8564

Fraudulent Financial Reporting Trough Financial Ratios: Case of Banking Sector in Indonesia

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Abstract

Bank is a sector that has the most suspensions list in Indonesia from 2015-2017. This study aims to determine and analyze the financial ratios that influence the Fraudulent Financial Report for bank listed in IDX period 2015 – 2017. Financial ratios suspected to affect Fraudulent Financial Report are leverage, profitability, composition asset, liquidity and capital turnover. The final sample of this research are 40 banks. The technique analysis used in this research is logistic regression analysis. The hypothesis in this study was based on previous research and various other supporting theories. The results of this study showed that leverage and profitability had no significant effect on Banks Fraudulent Financial Report. Composition asset, liquidity and capital turnover has a significant effect on Banks Fraudulent Financial Report. There are no significant different financial ratios between bank with or without suspension, but there are different between fraudulent bank base on suspension data on OJK and fraudulent bank base on Beneish M Score.

Keywords: fraudulent financial report, financial ratios, banking sector, beneish m score

1. Introduction

Every year cases of *fraud* in Indonesia are not relenting the problem of each company. *Fraud* or cheating may occur in the field of finance. According to Zainudin and Hashim (2016), fraud is an action that can cause harm to certain parties or institutions and activities that are not always revealed. Cheating can be described as intentional regretted action in a certain way to others. Incorrect actions can be differentiated in a variety of ways depending on the class of the violation.

Fraud is a growing problem these days. Fraud not only impairs the trust between management and investors but also lowers the results of the accounting itself (ACFE, 2016).

According to the OJK, The bank is determined by the status of frozen bank business activities if the bank meets the requirements that the bank's condition decreases very sharply or the bank's dissemination program cannot be resolved by the bank within the term of certain time. Due to fraud in financial statements, the result of which the company obtained in the form of suspension sanctions from OJK. This Research is using the banking sector because the suspension in Indonesia most is in the banking sector, based on the data of OJK suspension 2015-2017.

Financial reporting Fraud (FFR) can occur anywhere and it is increasingly prominent in the public eye as well as regulators of the world because it can be done by individuals in all professions. (Dalnial, Kamaluddin, Sanusi, and Khairuddin, 2014). Financial statements often give results that are not in accordance with the actual state of the company because they want to be declared as company assets. Financial report fraud can be found when auditors become suspicious about their accounting or lack of management explanation regarding transactions and balances. However, it is often discovered because of the difficult company's finances that could eventually bring bad influence for the company or the company failed (Brennan & McGrath, 2007).

One of the measuring instruments of financial report fraud (FFR) is the M-Score (Beneish M-Score). M-Score developed a statistical model used to detect fraudulent financial statements with various matrix. After that, the result of suspension in OJK will be compared with the results of M-Score to be seen whether there is any statistically different.

This research is a replication of previous research. The previous research used as a reference to this study was the research conducted by Zainudin and Hashim (2016).

The main results of this study are as follows. First, leverage and profitability have no effect on fraudulent financial reporting, on the other hand asset composition, liquidity, and capital turnover have a significant effect on fraudulent financial reporting. Second, result of independent analysis sample t test for all five variable of leverage, profitability, asset composition, liquidity, and capital turnover between suspension and non suspesion bank in OJK are indifferent. Third, suspension average between Beneish M- Score and Suspension bank in OJK are different, it looks like Beneis M Score Model are not appropriate tools for predicting fraud for banking sector in Indonesia.

The reminder of this paper is organized as follows. Section 2 reviews related literature about fraud. Sections 3 and 4 describe the methodologies and data, respectively. Section 5 analyze the fraud model logistic and partial regression analysis provides and also additional discussions on the advantages and disadvantages of fraud measures Section 6 employs a novel and simple approach to evaluate the ability of the proposed measures in explaining movements in manajerial implications. Section 7 concludes.

2. Related Literature About Fraudulent Financial Report

Fraud

Generally, cheating will always happen if there is no accurate detection and prevention. The conduct of fraud in the presentation of financial statements is important to the attention that this action can be detected and eliminated so that financial statements can be trusted by interested parties. (Ulfah et al, 2017). Meanwhile, research on fraud in the public sector is still a little. One obstacle in understanding fraud in Government activities/programs is that the data is at least valid and reliable, while another obstacle is the agreement on one definition of common fraud (Larson, in Wijaya 2016). . Usually, actors are people whose functional tasks do not only run internal control systems, but also operate an agency or enterprise operating system.

Financial Statements Fraud

Financial fraud reports are usually done by management with their knowledge. Elliott and Willingham (in Intal and Do, 2002) argue the financial report is as cheating a management fraud i.e., "deliberate cheating can be made by the detrimental management of investors and creditors through financial statements Misleading ". Thus, it can be defined that fraud in general and financial report fraud in particular is intentional and detrimental to other parties.

Model Financial Statement Fraud

One measuring tool that can be used in assessing the financial fraud of the company is M-Score. According to Beneish (1999), the model for detecting profit manipulation uses a sample manipulator and an industry-appropriate company in its period and evaluates the performance of the model on sample disagreements during the period. The M-Score measuring instrument can predict the suspension of the company. Beneish M-Score is a probabilistic model, so it will not detect fraud with 100% accuracy.

One measuring tool that can be used in assessing the financial fraud of the company is M-Score. According to Beneish (1999), the model for detecting profit manipulation uses a sample manipulator and an industry-appropriate company in its period and evaluates the performance of the model on sample disagreements during the period. The M-Score measuring instrument can predict the suspension of the company. Beneish M-Score is a probabilistic model, so it will not detect fraud with 100% accuracy. The Formula Beneish M-Score is the following:

Table 1: Variable operations M-Score

Rasio	Detail	Rumus
DRSI	Days' Sales in Receivables Index. This ratio measures the sales of days in receivables over the previous year as an indicator of revenue inflation	$DRSI = \frac{account\ receivables_{(t)}/sales_{(t)}}{account\ payable_{(t-1)}/sales_{(t-1)}}$
GMI	Gross Margin Index. This ratio is measured as a Gross margin compared to the previous year. Companies with smaller prospects then nudge can manipulate profit.	GMI= $\frac{gross\ profit_{(t-1)}/sales_{(t-1)}}{gross\ profit_{(t)}/sales_{(t)}}$
AQI	Asset Quality Index. The quality of the asset is measured as a ratio of non-current assets in addition to factories, Proberti, and equipment to total assets compared to the previous year. This ratio intends to measure the likelihood of a company's risk to take advantage of costs.	AQI= $\frac{\frac{(1-CA_t+PP\&E_t)}{Total\ asset_t}}{\frac{(1-CA_{t-1}+PP\&E_{t-1})}{Total\ asset_{t-1}}}$

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Published by UiTM Cawangan Johor, Malaysia
eISSN 2600-8564

Rasio	Detail	Rumus
SGI	Sales Growth Index. This ratio measures the sales compared to the previous year. While Growth Sales are not a measure of manipulation, but evidence suggests that the company's nudge companies find themselves under pressure to manipulate by maintaining its appearance.	SGI= $\frac{sales_t}{sales_{t-1}}$
TATA	Total Accruals to Total Asset. Total accruals are counted as changes in the working capital accounts other than in the depreciation of cash. It measures the risks that are related to the accrual policy used as a financing mechanism for losses.	$\frac{operating\ profit_{(t)} - activity\ cash\ flow_{(t)}}{total\ asset_{(t)}}$

(source: Beneish, 1999)

Definition:
If the value of M-Score < -2.22 then indicates that the company will not be a manipulator. Conversely, if the value of M-Score > -2.22 most likely the company will be a manipulator. (Beneish, 1999)

3. Measuring Financial Performance and Fraudulent Financial Report

3.1 Processing techniques and Data analysis

To process the data on this research using SPSS 21 application. The data analysis techniques used are statistic descriptive analyses; Goodness of Fit; Overal Test; Negekerke R Square; and Classification Plot. The methods of data analysis conducted are logistic regression models, hypothesized testing techniques using T-Tests (partial test) and independent sample T-Test tests.

3.2 Research Equation

$$\mathbf{Ln\ \frac{FFR}{1-FFR} = \alpha + \beta_1 DAR_{i,t} + \beta_2 NPM_{i,t} + \beta_3 KA_{i,t} + \beta_4 LIQ_{i,t} + \beta_5 CTO_{i,t} + \varepsilon} \quad \textbf{(1)}$$

Where:
$\mathrm{Ln}\ \frac{\mathrm{FFR}}{1-\mathrm{FFR}}$= Fraudulent financial reporting
α = konstanta
DAR = Total Liabilities / Total Assets
NPM = Net Profit / Revenues
KA = Current Assets / Total Assets
LIQ = Working Capital / Total Assets
CTO = Revenue / Total Assets
ε = error

This Model was chosen on the grounds that the data used in this study is non-metric in the dependent variable (FFR), while independent variables are some financial ratios. Logit analysis is used to analyse qualitative data that reflects two options or often called binary logistic regression.

4. Data

The study aims to determine the influence of financial ratios on fraudulent financial reporting. The research object used is a banking subsector service company listed on the Indonesia Stock Exchange (IDX) in the period 2015 to 2017. The reason for use of the sector and the period of research is due to the suspension data issued by the OJK that most are in the banking sector. In addition, the period selection of 2015 to 2017 to provide updated results because it uses the current period.

The dependent variables used in this study were the financial reporting fraud measured by the OJK suspension report as the Y variable. Cheating financial reporting is measured by dummy variables i.e. 0 score: If the company performs Not cheating on financial reporting and scoring 1: If the company is cheating on financial reporting.

5. Advantages and Disadvantages Result

5.1 Logistics and partial test regression analysis Results

Here are the results of a regression analysis of logistic along with partial tests conducted in this study:

Table 3: Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1[a]	DAR	-.375	1.239	.092	1	.762	.687	.061	7.791
	NPM	.010	.016	.401	1	.526	1.010	.979	1.042
	KA	1.881	.873	4.641	1	.031	6.557	1.185	36.288
	LIQ	-2.017	.928	4.722	1	.030	.133	.022	.821
	CTO	-12.263	5.961	4.232	1	.040	.000	.000	.560
	Constant	-1.704	1.122	2.308	1	.129	.182		

a. Variable(s) entered on step 1: DAR, NPM, KA, LIQ, CTO.

Source: Output data SPSS 21 (2018)

Leverage influence on fraudulent financial reporting

Leverage influence on fraudulent financial reporting with proxy debt to asset ratio on table 3 shows leverage results have no effect on fraudulent financial reporting. These results are contrary to previous research such as Zainudin and Hashim (2016) where leverage has no effect on fraudulent financial reporting. Leverage that is proscribed with debt to asset ratio indicates results have no effect on the financial reporting fraud that the higher the leverage will cause the company has a lesser chance of doing Financial reporting Fraud (Dani, 2013). Leverage proved to have no effect on the risk of cheating financial statements because the company has the ability to restore the debt so as not to be a pressure for management to manipulate. The reason for the results of this research is that the company can take loans with two reasons, namely the occurrence of unpredicted earnings decline and operational financing for the development of the company.

Effect of profitability on fraudulent financial reporting

Based on the tests that have been conducted, the results of this study showed that the results of profitability that were proscribed with net profit margin did not affect the fraud of financial reporting. This suggests that more banking is not subjected to suspension than the affected suspension. This research is contrary to Widyanti and Nuryatno, (2018) where the profitability that is proscribed with net profit margin is influential with financial reporting fraud. The research is also supported by Haqqi et al, (2015) which states that profitability has no effect on the fraud of financial reporting. The smaller the ratio, the more likely the company is predicted to fraud financial statements. In terms of manipulation of financial statements, the management of the company has the possibility of making financial report engineering for a certain period so that it does not affect the company's long-term profits. Low company performance does not affect the occurrence of fraudulent financial reporting.

Effect of asset composition on fraudulent financial reporting

Based on table 3, the variable asset composition has a significant influence on fraudulent financial reporting. This shows the current assets are largely comprised of receivables and supplies. The greater the receivables on the company then the greater to do fraud on the financial statements. According to (Ansori & Fajri,2018) Investors assess the composition of the company's assets to consider the decision to invest because the better the assets owned by the company, the better the company in operating its operations. It can attract investors to invest their shares and become a trigger for company management to conduct fraudulent financial statements by manipulating data related to the assets owned by the company. This study differed from Ansori and Fajri, (2018) that the influence of asset composition has no effect on cheating financial reporting.

Impact of liquidity on fraudulent financial reporting

The influence of Lliquidity has an influence on fraudulent financial reporting. According to Sartono, (2008) liquidity can be a reference for both internal and external enterprises in making decisions. Internal companies use the liquidity ratio as a reference to evaluate the extent of the company's ability to pay off its obligations. In operation, the company certainly expects the ease of obtaining a loan to support its performance. This can be one of the factors that encourages management to perform manipulations related to the liquidity ratio so that the company seems to have a good ability to pay off its obligations. These results are contrary to previous research such as Listyawati (2016) and Haqqi & Tarjo, (2015) where liquidity has no effect on fraudulent financial reporting. The research is supported by Kreutzfeldt and Wallance (1986) which states that the problem of liquidity in the company gives a significant influence on errors in financial reporting compared to companies in conditions not Experiencing liquidity problems.

Influence of capital turnover against financial reporting fraud

Based on table 3, capital turnover variable against financial reporting fraud has a significant influence. The management of the company does its inefficiencies to the use of all existing assets. This is influential when the inability of the company to compete successfully can be an incentive to engage in fraudulent financial reporting. The research is supported by Wadyanti and Nuryatno, (2018) stating that the management that is cheating on the company will lower its competitive level compared to those who do not commit fraud in using assets to Earning revenue. The study differed from the previous Ansori and Fajri, (2018), Listyawati (2016) stating that capital turnover has an effect on fraudulent financial reporting.

5.2 Results independent analysis Sample T-Test

Comparison of no suspension and suspension to OJK

Table 4: Independent sample t-test

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
DAR	Equal variances assumed	.420	.518	-.219	117	.827	-.06379	.29110	-.64029	.51271
	Equal variances not assumed			-.731	115.595	.466	-.06379	.08721	-.23654	.10896
NPM	Equal variances assumed	.448	.505	-.285	117	.776	-9.91105	34.72076	-78.67370	58.85159
	Equal variances not assumed			-1.002	109.003	.319	-9.91105	9.89280	-29.51826	9.69615
KA	Equal variances assumed	2.217	.139	-.704	117	.483	-46.58756	66.20686	-177.70677	84.53165
	Equal variances not assumed			-2.470	109.000	.015	-46.58756	18.86386	-83.97511	-9.20001
LIQ	Equal variances assumed	2.190	.142	-.724	117	.470	-46.88905	64.72368	-175.07090	81.29280
	Equal variances not assumed			-2.543	109.016	.012	-46.88905	18.44193	-83.44029	-10.33781
CTO	Equal variances assumed	1.065	.304	-.531	117	.596	-1.71609	3.22942	-8.11180	4.67961
	Equal variances not assumed			-1.865	109.011	.065	-1.71609	.92016	-3.53982	.10763

It is known that the DAR variable has no significant difference in the comparison of no suspension and suspension to the OJK. Similarly, the profitability variables that are proscribed with NPM and the capital turnover that have a significant result paired more than 0.05 are no difference in the suspension or suspension of financial ratios. But the results of asset composition and liquidity have a result of less than 0.05. On average these five ratios have a paired result that is more than 0.05 hence the result of the mean also has a difference of both which is considered meaningless to deduced both differ in real.

Suspension comparison of M-Score with OJK suspension

Table 5: Independent Samples Test

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference Lower	Upper
SUSPENSI	Equal variances assumed	90.763	.000	-4.272	238	.000	-.20833	.04877	-.30440	-.11227
	Equal variances not assumed			-4.272	196.416	.000	-.20833	.04877	-.30450	-.11216

Source: Output data SPSS 21 (2018)

Based on the above results it is known that suspension in OJK and suspension on M-Score There is a significant difference. The average of the OJK suspension is 0.0833, while the average suspense of the M-score is 0.2917 which means that the difference between the two can be considered significant to be deduced is different in real.

6. Managerial Implications

Based on the results of analysis and discussion on the influence of leverage, profitability, asset composition, liquidity and capital turnover against the financial reporting of fraud in the banking sector period 2015-2017, obtained results that can be Consideration and can be utilized by investors and other stakeholders to know the influence of leverage, profitability, asset composition, liquidity and capital turnover against financial reporting fraud. From the results of regression analysis of leverage, profitability, asset composition, liquidity and capital turnover found that only variable asset composition, liquidity and capital turnover are influential in the financial reporting fraud Significant effect, and other variables have no significant effect on leverage and profitability. And for the result of the Independent sample hypothesis test T-Test There are differences in the comparison between OJK suspension and M-Score. However, there is no difference financial ratios between the company's with suspension and without suspension.

7. Conclusions

7.1 Conclusions and Further Research

Based on the results of the analysis and the discussion that has been described, it can be concluded that variable leverage (DAR) and profitability (NPM) have no significant effect on the financial reporting fraud. However, in asset composition variables (KA), Liquidity (LIQ), and capital turnover (CTO) have significant effect on fraudulent financial reporting. And the comparison between suspension and no suspension to OJK is no difference in financial ratios. However, the ratio of suspension obtained by OJK and suspension on the calculation of M-score is a difference.

This research has limitations that can be considered for further researchers to be able to do better research. In this study there were two independent variables that had no significant effect on the financial reporting fraud, namely leverage and profitability in the banking sector which year 2015 to 2017. So it can not be used as a factor that affects the fraud of financial statements especially in the banking sector. And also the disclosure of data about the cheating financial statements in Indonesia is very lacking when compared to data cheating financial statements of the company in the overseas scope. Also for further research in suspension case in Indonesia banking sector can try to use other fraud model than Beneish M Score.

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