Pressure and Opportunity Factors in Financial Statement Fraud Detection with Family Companies as Moderators

Abdul Manan[1*], Imam Ghozali[2], Tri Jatmiko Wahyu Prabowo[3]

[1]*Doctoral Student, Faculty of Economics & Business, Universitas Diponegoro, Jalan Erlangga Tengah No.17, Semarang City, Central Java 5024, Indonesia.*

[2,3]*Faculty of Economics & Business, Universitas Diponegoro, Jalan Prof. Moeljono Trastotenojo, Tembalang, Semarang City, Central Java 50275 Indonesia.*

Abstract: This study investigates how family companies, as a moderating variable, can strengthen or weaken fraud detection in the financial statements presented. The pressure and opportunity factors used in detecting fraudulent financial statements. Using the purposive sampling method, the samples used in the study were companies in the manufacturing sector listed on the IDX for the 2018-2020 period. The data analysis method in this study uses multiple linear regression analysis and moderated regression analysis (MRA). The results of this study use two factors that trigger fraud: leverage for external proxy pressure and ineffective monitoring for a proxy opportunity. The leverage variable affects financial statement fraud. In comparison, the ineffective variable monitoring of the independent board of commissioners does not affect fraudulent financial reporting. For ineffective monitoring, institutional ownership significantly negatively affects fraudulent financial reporting. The family firm variable cannot moderate the effect of leverage and ineffective monitoring on the independent board of commissioners and institutional ownership on fraudulent financial reporting. This indicates that family share ownership cannot strengthen leverage and ineffective monitoring because of the independent board of commissioners who serve as supervisors. This study offers important insights for family companies in detecting fraudulent financial statements, namely external pressure needs to be an essential factor that is considered. Meanwhile, ineffective monitoring is directed at the composition of the board of commissioners, and institutional ownership needs to be enlarged to put pressure on company managers.

Keywords: External Pressure; Ineffective Monitoring; Family Firm; Financial Reporting Fraud.
Jel Classification: G21; G34; G38; M42.

INTRODUCTION

Fraud as intentional deception is commonly called lying, plagiarism, and theft (Bologna & Lindquist, 1995). The Association of Certified Fraud Examinations (ACFE) categorises fraud into three groups: corruption, asset misappropriation, and fraudulent statements. Fraudulent statements in this study are financial statements which are financial statements, usually fraudulent financial statements involving top management.

The financial report is a management statement on the company's financial information and is a communication medium used by interconnected parties with the same interests. Financial information, or what is commonly called financial statements, aims to present information about economic activities within a company. Several parties are interested in financial statements, including management, shareholders, creditors, investors, government, and employees. Financial reports are information managers must account for the company's activities to stakeholders (Belkaoui, 1993).

Financial statements are accounting information that reflects the company's financial condition. Financial information is a management product; financial statements mirror the company's performance. Financial reports for management can be used for performance evaluation and the basis for making short- and long-term decisions. Management functions as a control structure responsible for accounting transaction activities. Financial reporting standards require financial reports to be presented accurately and relevantly so that the information in the financial statements can be used for decision-making by interested parties.

The company publishes its financial statements to show its best condition. If this cannot be fulfilled, then this can trigger fraud in the financial statements by manipulating them because they want to show good performance, but in reality, it does not match the reality. When the financial statements have material misstatements, the information in the financial statements is invalid. Fraudulent financial statements occur due to intent or carelessness in doing something or not doing something that should be done, which causes the financial statements to be materially misleading (Tuannakotta, 2007).

*Address correspondence to this author at the Doctoral Student, Faculty of Economics & Business, Universitas Diponegoro, Jalan Erlangga Tengah No.17, Semarang City, Central Java 5024, Indonesia.
E-mail: abdulmanan.undip@gmail.com

According to Rezaee (2002), the Association of Certified Fraud Examiners (ACFE) states that fraud is an act of fraud or error made by a person or entity that knows the error can result in bad things for individuals, entities, or other parties. Soselisa and Muchlasin (2008) define fraud as a deliberate or careless act in the form of intentional actions or omissions that result in material errors in the financial statements so that the financial statements contain misleading information.

The Association of Certified Fraud Examiners (ACFE) Global research results show that every year an average of 5% of company revenue becomes a victim of fraud. In 2016 the total loss caused by fraud reached USD 6.3 billion, with an average loss per case reaching more than USD 2.7 million. This causes the information in the financial statements to be invalid and can mislead users of financial statements in making decisions.

Fraud cases that occurred, for example, in 2001, occurred in the United States, namely, Enron, Global Crossing, and Worldcom. In Indonesia, corporate scandals detected from manipulation (Gideon, 2005), among others, PT Sari Husada Tbk, PT Indo Farma Tbk, PT Kimia Farma Tbk, PT Bank Lippo Tbk, PT Asian Agri, PT Perusahaan Gas Negara Tbk, Most of the fraud is by manipulating books (Heriyati, 2011). Ernst & Young's research (2003) found that more than half of the perpetrators of financial statement fraud were management.

The number of accounting scandals causes various parties to speculate that management has committed fraud in the financial statements (Skousen, Wright, & Kevin, 2009). Many fraud risk assessments adopt auditing standards regarding fraud detection, namely SAS No. 82, ISA 240, and SAS No. 99. This refers to the theory of fraud risk factors developed by (Cressey, 1953), namely pressure, opportunity, and rationalisation, which is often referred to as the Fraud Triangle.

The classification of opportunity according to SAS No. 99 on financial statement fraud into three categories, nature of the industry, ineffective monitoring, and organisational structure. Weak supervision or monitoring provides an opportunity for managers to behave defiantly. Ineffective monitoring is one of the opportunities (Opportunity) that allows fraud to occur. Opportunities are created due to areas for improvement in internal control. The opportunity that allows fraud to occur. The results of Rachmania's 2017 research) Ineffective Monitoring does not affect fraud, while Putri (2017) the results of her research affect fraudulent financial statements.

Albrecht et al. (2011) argue that six factors can increase the opportunity to commit fraud against financial statements, namely; lack of control, inability to assess the quality of performance, failure of discipline, lack of supervision of information access, indifference and inability to anticipate fraud, lack of audit trail information (audit trail).

The information asymmetry between management (agent) and the owner (principal) can allow managers to commit fraud. As stated by Jensen & Meckling (1976), agency conflict arises due to the separation between ownership and control of the company. The basic assumption in agency theory is that managers will act opportunistically by taking advantage of personal interests.

THEORETICAL FRAMEWORK

Agency Theory

Agency Theory proposed by Jensen & Meckling (1976) defines an agency relationship as a contract between two parties that contains delegation of work and authority by the first party (as principal) to the second party (as agent). Where the second party does work for the benefit of the first party. The interests of the first party generally conflict with the second party because the first party, as an information user, obtains asymmetric information from the second party as an information provider, creating uncertainty (Deegan, 2007).

Information asymmetry can be in the form of an uneven information distribution process between the agent and the principal, and the principal cannot monitor the agent's business transactions directly. This causes the agent directly related to business transactions to tend to perform dysfunctional behaviour, including presenting earnings according to the expectations of the principal, so that the earnings prediction does not describe the actual condition of the company (Scott, 2009).

To meet shareholders' expectations, management or agents will present financial reports, not by existing conditions which can be called financial statement fraud. Financial Statement Fraud Financial statement fraud is an act of misstatement that is carried out intentionally, and this misstatement can be in the form of manipulation, smoothing, or changing the accounting records of a company so that it results in misleading users of financial statements in making decisions (Albrecht, 2011).

According to Claessens et al. (2002), agency theory explains that in addition to positively impacting agency problems, family ownership can also potentially cause an entrenchment effect (Yeh, 2005). Family ownership will reduce agency problems by appointing managers still by the owner's interests (Bhaumik et al., 2010). However, too much control owned by the family will encourage them only to prioritise their interests and exploit minority shareholders (Morck et al., 2005).

Fraud

According to The Association of Certified Fraud Examiners (ACFE), fraud is an attempt to deceive other parties to obtain personal or group benefits that commit fraud and will directly harm other parties. According to (Arens & Loebbecke, 2003), fraud occurs when a misstatement is made in a situation where the perpetrator knows it is a falsehood and is carried out to commit fraud. Fraud is an act and also an action that is carried out consciously, deliberately knows and wants to misuse everything that is owned together. According to the Association of Certified Fraud Examiners (ACFE), an act of fraud is divided into three groups, namely Corruption, Asset Misappropriation, and Financial Statement Fraud.

A deliberate act of deception perpetrated to obtain financial benefit is fraud. It is an act of trickery or deceit performed to gain an unfair advantage or cause harm to others. It is possible to conduct fraud in several ways, including making false statements, misrepresenting oneself, or stealing. It is a violation of the law that carries the potential for severe repercussions in the court system.

It is possible to divide fraudulent activity into several distinct categories according to the approach taken to carry it out. The following are some examples of prevalent types of fraud:

1. Investment fraud is a form of financial fraud in which a person or organisation deceives others by making false promises of great returns on investments to trick them into investing their money. To defraud naive investors, the perpetrator may employ various strategies, such as fraudulent investment schemes, Ponzi schemes, or pyramid schemes.
2. Theft of identity is a form of fraud in which one person steals another person's identity, most frequently for the purpose of committing financial fraud. The culprit may make fraudulent transactions with stolen credit card information, open bank accounts, or obtain loans with stolen personal information.
3. Insurance fraud is a sort of financial fraud in which a person submits false claims to an insurance company or purposefully damages property to collect insurance payouts. Additionally, the perpetrator might use fictitious identities or forge documents to obtain insurance coverage.
4. Credit card fraud is a specific kind of identity theft in which an individual makes unauthorised purchases using stolen credit card information to pay for those items. The criminal may acquire credit card information through various means, including skimming, phishing, or hacking.
5. Tax fraud is a form of financial fraud in which an individual or organisation willfully and dishonestly misrepresents their income or spending to evade or reduce their obligation to pay taxes. The culprit may engage in various fraudulent activities, including understating their income, exaggerating their deductions, or submitting fraudulent credit claims.
6. Employment fraud is a sort of fraud in which an individual attempt to gain employment by making false claims about their qualifications or the amount of work experience they have. The criminal may fabricate papers such as resumes or references to deceive potential employers further.

Both the person who commits the fraud and the person who is defrauded may face severe repercussions due to their actions. The victim may experience mental distress, financial losses, or damage to their reputation due to the crime. On the other hand, the culprit may be subject to monetary fines, time in jail, or other forms of legal punishment. Fraud can also have broader societal effects, such as lowering people's trust in institutions and hurting the economy, which can be detrimental.

Fraud can only be stopped by taking several preventative steps, the most important of which are awareness, education, and enforcement. The prevention of fraud within an organisation can be accomplished by various means, including installing fraud detection systems, performing background checks on personnel, and providing training to staff on spotting and reporting fraudulent activity. Individuals can also protect themselves from fraud by exercising caution when providing personal information online, routinely monitoring bank statements and credit reports, and reporting suspicious activity to the appropriate authorities.

Fraud Triangle

Fraud is different from error because an error is an unintentional act, while fraud is a deliberate act to cover up a mistake. The Association of Certified Fraud Examiners (ACFE, 2019) states that fraud is using one's position through intentional actions or misusing resources such as organisational assets. Three conditions can cause fraud in financial statements and also misuse of assets. These three conditions are called the fraud triangle. The Fraud Triangle theory is a theoretical idea that examines the causes of fraud. This idea was coined by Cressey in 1953 and is called the fraud or fraud triangle. The fraud triangle is Pressure, Opportunity, and Rationalisation.

Pressure (Pressure) Cressey (1953) argues that pressure is an incentive that encourages people to commit fraud because of lifestyle demands, powerlessness in financial matters, gambling behaviour, trying to beat the system, and job dissatisfaction. Pressure can be caused by factual conditions owned by the perpetrator, such as people facing personal problems. Pressure can also be caused by perceptions derived from opinions built by the perpetrator that encourage fraud, such as executive need. According to SAS No. 99, four pressures can cause someone to engage in fraud, namely financial stability or profitability, external pressure, personal financial situation (personal financial need), and financial targets.

Opportunity (Cressey, 1953) argues that someone cannot commit fraud without opportunity. According to the fraud triangle, pressure alone is not enough. Pressure creates a motive for a crime, but employees must also understand that there is an opportunity to commit a crime without being noticed. These opportunities generally arise in weak control systems. (Cressey, 1953) states that if a company has a weak control system, the opportunity to commit fraud will arise. However, even a good control system still allows fraud to occur, which is generally carried out by those who are trusted or have authority. SAS No. 99 cites the following four opportunities that allow a person to engage in fraud: the nature of the industry, ineffective management supervision (ineffective monitoring), and a complex or unstable organisational structure.

Rationalisation (Cressey, 1953) explains rationalisation as a thought that justifies its actions as reasonable behaviour, which is morally acceptable in a normal society. This is done to calm the feelings concerned so that if done, it does not cause fear in him. The rationalisation is generally related to a person's integrity, code of ethics, and values. Rationalisation is crucial before fraud occurs because rationalisation is part of the motivation (such as pressure) for a crime. The rationalisation is part of the fraud triangle that is difficult to measure (Skousen, Wright, & Kevin, 2009).

Financial Statement Fraud

Fraud in financial statements is a misstatement or deletion of the amount or disclosure done intentionally to deceive users of these financial statements (Elder et al., 2011). Financial statement fraud is also a form of behaviour carried out intentionally by several parties which aims to cover up the company's actual financial condition by manipulating the presentation of financial statements so that the company's condition looks good (Priantara, 2013, p. 68). Most financial statement fraud perpetrators are company managers with high positions. From the results of a survey conducted by the Association of Certified Fraud Examiners (ACFE, 2017) that the manager's position can be used to commit fraud on financial statements.

White-collar crime, known as financial statement fraud, refers to dishonestly misrepresenting a company's financial performance in the company's financial statements. Financial statement fraud is a sort of financial statement fraud. This type of fraudulent behaviour can be committed by a firm's executives, company employees, or other individuals who have access to financial information. Fraudulent activity on financial statements can occur through various means, including manipulating accounting records, overestimating assets or revenues, underestimating obligations or expenses, and concealing or omitting essential financial information.

Manipulating accounting records is a typical tactic that is utilised in the fraudulent preparation of financial statements. This can involve the fabrication or alteration of financial papers such as invoices, receipts, or bank statements to create the impression that the firm is performing better financially than it is. To artificially inflate the company's revenue or profits, an employee, for instance, might fabricate invoices or receipts. Another possibility is that a senior executive will tamper with the company's accounting records to conceal losses or expenses and artificially inflate the company's profitability.

Another method of falsifying financial statements is to overvalue the revenues or the reported assets. This can involve inflating the value of assets on the balance sheet, such as overestimating the value of inventories, property, plant, and equipment. Alternatively, this can be accomplished by not accurately reflecting the value of assets. Alternatively, a senior executive might inflate the company's revenue by recognising revenue that has yet to be earned or by recording revenue from fictitious transactions to give the impression that the company is doing better than it is.

Another approach to deceiving investors through false financial statements is to understate liabilities or expenses. This can involve purposely understating the amount of debt the company is responsible for paying or the number of expenses incurred as a result of running the business. Because these amounts have been artificially inflated, the company's financial performance has been made to look significantly better than it is.

The concealment or omission of material financial information is another method that can be utilised to commit financial statement fraud. This can involve the company's financial statements concealing critical financial information, such as losses, liabilities, or other financial troubles the company is experiencing. Because the company is withholding this information, its financial performance appears to be better than it is.

Fraudulent activity on financial statements can have severe repercussions, not only for the company but also for its stakeholders. This can result in a decline in investor confidence, harm to the reputation of the company, as well as legal and financial consequences. In extreme circumstances, fraudulent financial statements may even cause a corporation to go bankrupt or become unable to pay its debts.

Companies should implement robust internal controls and routinely examine their financial statements to ensure that they are accurate and comprehensive to reduce the risk of financial statement fraud. Additionally, they need to ensure that all financial dealings are correctly documented and that financial records are kept safe. In addition, businesses should undertake frequent audits to look for signs of fraudulent activity and move quickly to remedy any problems uncovered by the audits.

Family Company

Family firms are one of the foundations of the business community; the majority of firms around the world are family-owned (Burkart et al., 2003). The existence of company owners acting and management can incentivise management to monitor directly and use voting power that minimises unproductive business activities (Jiraporn & DaDalt, 2007). PWC survey results in 2014 show that more than 95% of businesses in Indonesia are family-owned. The manufacturing sector has at least 50% family firms, 13% are in the transportation sector, the public sector accounts for at least 13%, 7% are in the construction sector, and 5% or less are in other sectors. Family firms in Indonesia have an ownership structure that tends to be concentrated. Research results (Claessens et al., 2000) on the ownership structure of companies in nine Asian countries show that public companies in Asia have a concentrated ownership structure. As many as 54% of public companies, especially in Asia, are controlled by families.

According to Donnelley (2002), an organisation is called a family company if there are at least two generations of involvement in the family and they influence company policy. Andres (2008) states that a company is categorised as a family company if it meets at least one of two criteria. First, the founder and or his family members have more than 25% of the voting rights. Secondly, if the founder's family has less than 25%, their voting rights must be represented on the executive or supervisory board. Meanwhile, in Indonesia, there are regulations regarding the share ownership of a company, namely the decision of the board of directors of the Jakarta Stock Exchange No.Kep-305/BEJ/07-2004 explains that a shareholder can be called a controlling shareholder if he owns 25% or more of the company's shares.

In family companies, there are two groups of shareholders, namely majority shareholders and minority shareholders. The company's ownership structure is divided into two, namely, the dispersed ownership structure and the concentrated ownership structure. Most companies in the United States and the United Kingdom have a dispersed ownership structure (Diyanty, Utama, Rossieta, & Veronica, 2013). However, in contrast to companies in the Asian region, it is stated that around 50% of public companies in Indonesia are companies with concentrated ownership structures and are controlled by families. A company can be categorised as a family company if the ownership structure is 20% or more in the hands of people with a significant degree of kinship, voting rights, or control (Anderson & Reeb, 2003).

THE EFFECT OF EXTERNAL PRESSURE ON FRAUDULENT FINANCIAL REPORTING

External Pressure (Leverage)

According to SAS No. 99, one of the pressures that can cause fraud is external pressure. External pressure is excessive pressure for management to control management so as not to commit fraud. The External Pressure proxy used is Leverage. SAS No. 99 explains that when the pressure received by management feels excessive from external parties, it will pose a risk of fraud against financial statements. External Pressure is an encouragement for management to realise the wishes of third parties. External pressure comes from the company's ability to pay debts, which can be calculated using the leverage ratio, the ratio of total debt divided by total assets (debt to assets ratio). In the leverage ratio, it is stated that if the leverage is greater, the possibility is greater to violate the credit agreement. Therefore, with high credit risk, it is possible to manipulate financial reporting.

This is supported by the opinion of Skousen et al. (2009), who states that one of the pressures that company management often experiences is the need to obtain additional debt or external financing sources. Furthermore, this pressure will lead to financial statement fraud. This theory is supported by the results of previous studies conducted by Tiffani and Marfuah (2017); Maghfiroh et al. (2015); Rachmania (2017); Nugraheni and Triatmoko (2017); Agustina and Pratomo (2019); Oman and Hendra (2019), Aghghaleh et al., (2014); Dalnial et al., (2014); and Zaki (2019), (2014); and Zaki (2017) which shows that external pressure influences fraudulent financial statements when the company has a high level of debt it is very likely to commit fraudulent financial statements because if you want to get additional debt from both investors and creditors see the extent to which the company can return the funds borrowed or invested.

H1: External Pressure Affects Fraudulent Financial Reporting

The Effect of Ineffective Monitoring on Fraudulent Financial Reporting

According to SAS No. 99, one of the "Opportunity" variables in the Fraud Triangle is ineffective management supervision (ineffective monitoring). Monitoring or supervision is one of the duties of the Board of commissioners. The board of commissioners has full authority and responsibility in controlling, supervising, and directing the management of company resources (Syakhroza, 2005) (Pamungkas et al., 2018). When a company has a board of commissioners that works effectively, the company's performance will also be good. The quality of this function is a determinant of the effectiveness of corporate governance. Monitoring carried out by the board of commissioners and shareholders is essential in aligning the interests of shareholders and management. The effectiveness of company monitoring carried out by the independent board of commissioners will minimise fraud. Oktarigusta's research (2015) and Abdillah and Susilawati's (2014) state that independent commissioners harm financial statement fraud. Since there are more independent commissioners, the supervisory process carried out by this board is of higher quality because there are more independent parties who demand transparency in the company's financial reporting. Rahmanti (2013) states that the high level of fraud in Indonesia is partly due to inadequate supervision, thus creating a gap for someone to commit fraud. Based on this description, the hypothesis proposed is:

H2a: Ineffectiveness of Independent Commissioner Supervision positively affects Fraudulent Financial Reporting

Statement of Auditing Standards (PSA) No.70 states that the risk of fraud will increase if the opportunity is open because of weak or inadequate internal controls. Institutional shareholders are incentivised to monitor management performance because they get significant benefits. Greater voting power makes it easier for them to take corrective action, reducing the possibility of fraudulent financial reporting. If the proportion of ownership owned by institutional more than 5% of outstanding shares, has increased, then there is a possibility that indications of fraud will also increase. Loebbecke and Willingham (1988) found that internal control and decentralisation impact the risk of financial misstatement. According to Abbott et al. (2002), using the ratio of institutional ownership can determine the impact of internal control. Based on this description, the hypothesis proposed is:

H2b: Ineffectiveness of Institutional Ownership Supervision positively affects Fraudulent Financial Reporting

The effect of Family Share Ownership strengthens the relationship between External Pressure and Fraudulent Financial Reporting.

One of the characteristics of family firms is the involvement of family members in the company's management (Beuren, 2011). As the largest shareholder in the company, the family has control rights that can influence management in deciding company policy (Noodezh et al., 2015), in line with the opinion of Lease et al. (1988). Significant share ownership means the level of control over the company is also significant.

External pressure is proxied using the leverage ratio, which is the ratio between total debt and assets. The debt policy carried out by company owners to company managers is one of the pressures for company managers. This is supported by the opinion of Skousen et al. (2009) that one of the pressures that company management often experiences is the need to obtain additional debt or external financing sources to remain competitive, including financing research and development or capital expenditures. Perdana and Kusumastuti (2011: 150) found that family ownership significantly influences the cost of debt. Companies with family ownership also tend to use debt to finance the company rather than issuing new shares because they want to protect their control. (Lease et al., 1988).

H3: Family share ownership in the company strengthens the influence of the ineffectiveness of the supervision of independent commissioners on fraudulent financial reporting

The effect of Family Share Ownership strengthens the relationship between Ineffective Monitoring and Fraudulent Financial Reporting.

Family-controlling shareholders in Asian countries tend to take advantage of the flexibility and discretion over accounting choices to distort the truth of corporate earnings performance (Fan & Wong, 2002). The existence of family ownership is considered to reduce the conflict between owners and agents. Family companies generally avoid agency conflicts because the company's controllers are family members themselves, which causes each family member to desire to maintain the company's image and protect the company so that they do not experience agency conflicts. Research conducted by Dwiyanti and Astriena (2018) proves that the existence of family ownership has a negative influence on earnings management actions, which means that the greater the existence of family ownership, the smaller the level of earnings management actions, this is because the company owners who are family members will undoubtedly have a sense of wanting to maintain and protect the company's image. This means that family ownership can increase supervision within a company. Monitoring carried out by the board of commissioners and shareholders is an essential mechanism in aligning the interests of shareholders and management to minimise manipulation of financial statements. Thus, independent commissioners mediate between majority and minority shareholders to obtain appropriate rights and reduce conflicts between majority and minority shareholders (Andersen & Reeb, 2004). Based on this description, the proposed hypothesis is

H4a: Family share ownership strengthens the effect of ineffective supervision of independent commissioners on Fraudulent Financial Reporting.

The existence of a family as a majority shareholder will lead to differences of interest with minority shareholders, and the family can also take unprofessional actions is logical. This can impact the ineffectiveness of internal control proxied by the percentage of institutional ownership in identifying possible fraudulent financial reporting. Agency problems are often found in concentrated companies, where the principal is the controlling shareholder, and the agent is the non-controlling shareholder. When shareholders have majority control of the company, they can make decisions that benefit them. Family companies with concentrated ownership structures are generally dominantly controlled by majority (controlling) shareholders.

Majority shareholders also commonly appoint family members to positions on the board of directors. This can adversely affect minority shareholders as the majority shareholder may abuse substantial control to act in the family's interests rather than the interests of shareholders as a whole (Young et al., 2008). Fraud can occur when there is an opportunity for someone to do it and the company does not have sufficient supervision. Adequate supervision can affect the opportunity size or opportunity to commit fraud. The ineffectiveness of institutional ownership in carrying out the supervisory function of the financial reporting process will create opportunities for misstatement. Opportunities can also occur due to the appointment of family members who must be more competent to run a business venture. They need better performance in using accounting policies, especially reporting-related ones. The problem of agency in family companies also causes higher agency costs than in non-family companies due to the family's reluctance to fire incompetent family members. Based on this description, the hypothesis proposed is:

H4b: Family share ownership in the company strengthens the effect of inadequate supervision of Institutional Ownership on Fraudulent Financial Reporting.

RESEARCH METHODS

This study uses a quantitative approach, testing the relationship between variables that become the hypothesis of this study. In this study, the data used is secondary data consisting of company financial reports. In this study, the population was 158 companies with an observation period of 3 years, namely 2018-2020, with a total of 474 annual reports. The sample selection method uses purposive sampling to obtain a sample of 105 companies. Sampling is a process based on several criteria (Cooper & Schindler 2006).

The dependent variable in this study is fraudulent financial reporting proxied by one of the fraud score models (F-Score Model) developed by (Dechow, et al. 2010). The F-Score Model measurement consists of two components, namely, accrual quality proxied by RSST and the second component of financial performance proxied by changes in accounts receivable, changes in inventory accounts, changes in cash sales accounts, and changes in earnings before interest and taxes. The following describes the F-Score calculation model:

FFR = Accrual Quality + Financial Performance

Explain:

Financial Performance = Change in receivables + Change in inventories + Soft Assets + Change in cash sales + Change in earnings + Issue

$$\textbf{\textit{RSST Akrual}} = \frac{(\Delta WC + \Delta NCO + \Delta FIN)}{\text{Avarage Total Asset}}$$

The proxies for each variable in this study are as follows, the External Pressure variable uses Leverage (LEV) and Ineffective Monitoring (BDOUT) uses the ratio of commissioners from outside the company to all members of the board of commissioners (Skousen, 2009), and (BLOCK) Percentage of shareholders owned by institutional owners (>5%) (Skousen, 2009). While the family company variable (moderating variable), family share ownership (FO) is represented by ownership of 20% or more in the hands of people who have a significant degree of kinship, voting rights, or control (Anderson & Reeb, 2003).

The statistical analysis technique in this study uses multiple linear regression. In multiple linear regression analysis, descriptive statistical and classical assumption tests are carried out first. Descriptive statistical tests are used to describe the variables in this study briefly. Descriptive analysis is carried out to determine the description of the data to be analysed.

Table 1. Descriptive Statistics Results.

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
SQRT_LEV	315	,258	1,984	,67996	,223344
SQRT_BDOUT	315	,000	1,000	,63024	,101357
LEV*FO	315	,000	1,128	,14093	,203796
BDOUT*FO	315	,000	,667	,17432	,209747
BLOCK*FO	315	0	1	,06	,238
F SCORE	315	-9,0589	-5,1979	-6,707646	,5993214
Valid N (listwise)	315				

Table 2. Descriptive Statistics Results (Dummy Variables).

	Dummy =1		**Dummy =0**		**Std Dev**
	n	**%**	**n**	**%**	
BLOCK	67	21,27%	248	78,73%	0,410
FO	135	42,86%	180	57,14%	0,496

Ghozali (2006) states that the analysis used in descriptive statistical tests includes the maximum, minimum, average (mean), and standard deviation values.

The classic assumption test determines whether the data meets the basic assumption assumptions. The tests carried out in this study are the Normality test, Multicollinearity test, and Heteroscedasticity test. A good regression model has a standard data distribution or detects normal, to detect whether the distribution is normal or not can be done utilising statistical analysis. A good regression model should not correlate with the independent variables. If the independent variables are correlated, these variables are not orthogonal (Ghozali, 2006).

The regression equation model used in this study is assumed to be linear and tested with a significance level of 5%. The first hypothesis was tested using multiple linear regression analysis with the following equation:

$FFR_{it} = \beta_0 + \beta_1 LEV + \beta_2 FO + \beta_3 LEV*FO + \varepsilon$

The second and third hypotheses use Moderated Regression Analysis (MRA), a particular application of multiple linear regression in which the regression equation contains interaction variables.

$FFR_{it} = \beta_0 + \beta_1 BDOUT + \beta_2 BLOCK + \beta_3 FO + \beta_4 BDOUT*FO + \beta_5 BLOCK*FO + \varepsilon$

RESULTS AND DISCUSSION

1. DESCRIPTIVE ANALYSIS RESULTS

Descriptive statistical analysis in this study was used to provide information about the variables' characteristics, including minimum, maximum, average, and standard deviation.

Based on a sample of 310 companies, the lowest value of the FFR variable is -0,995, owned by PT Tiga Pilar Sejahtera Food Tbk in the 2019 financial year, while the highest value of 2,367 is at PT Trisula International Tbk in the 2019 financial year. The ineffective monitoring variable (BDOUT) has the lowest value of 0,2, owned by PT Kimia Farma Tbk in the 2018 financial year. PT Unilever Tbk owns the highest value of 0.833 in the 2020 financial year. The highest value of a family firm (FM) is 0,714 by PT. Saranacentral Bajatama Tbk during the observation year.

A descriptive statistical measurement of dummy variables, *ineffective monitoring* variable (BLOCK) proxied by the percentage of shareholders by institutional owners, at the time of the study coded 1, there were 67 companies or 22%. The percentage of shareholders not owned by institutional owners is coded 0; there are 243 companies or 78% of the total sample of companies. The *family firm* variable (FO) is proxied by the share ownership structure by the family coded 1, as many as 188 companies or 61%, and share ownership that the founding family of the company does not own coded 0; there are 122 companies or 39% of the total sample.

The results of the classic assumption test for the normality test are Asymp. Sig. (2-tailed) = 0,718. Multicollinearity test, the results are VIF value < 10, 1,096 – 5,124 tolerance value> 0, 10 is 0,195 – 0,913. Heteroscedasticity test results in the sig value of all variables> 0,05 are 0,142 – 0,467. As well as the autocorrelation test, the results are dU (1,840) < dW (2,064) < 4-dU (2,160), so everything meets the assumptions of the classical assumption test.

2. HYPOTHESIS TESTING

The following are the results of hypothesis testing described in the table below:

Based on the table. The significant value for the equation is the significance value of 0,000 < the significance level of 0,05 and the value of F_{hit} 28,721 > F_{table} = 3,020. So this

Table 3. Hypothesis Testing Results.

	Regression			Simultaneous Effects		Coefficient of Determination	
	β	T	Sig	F	Sig.	R2	Adjusted R2
LEV→FFR (H1)	-1,742	-10,131	0,000				
BDOUT→FFR (H2a)	0,561	2,042	0,042				
BLOCK→FFR (H2b)	-0,106	-0,712	0,477				
LEV*FO→FFR (H3)	0,208	0,729	0,466				
BDOUT*FO→ FFR (H4a)	-0,470	-1,094	0,275				
BLOCK*FO→ FFR (H4b)	1,158	1,152	0,250	28,721	0,000	0,396	0,382

model test is suitable for use in research so that the regression equation formed is suitable for use to analyse the prediction of fraudulent financial statements or good to be used as an estimation tool and can be continued to test further.

The regression results in the table above show that equation (1) produces an adjusted R^2-value of 0,382 or 38,2%. This means that 38,2% of *fraudulent financial reporting* variables can be explained by *ineffective monitoring and external pressure* variables moderated by family share ownership. Meanwhile, the remaining 61,8% is explained by other factors not included in this research variable.

The Effect of External Pressure (Leverage) on Fraudulent Financial Reporting

Hypothesis testing one (H1) states that the influence of external pressure, proxied by *Leverage* (LEV), harms fraudulent financial statements. The results in Table 6 show that Leverage (LEV) has a significance value of 0.000 <a (5%) and a count value of -10,131 while the t valuable is 1,96. The results of this hypothesis test indicate that the *Leverage* (LEV) variable has a negative and significant effect on the possibility of fraud in financial statements. So, the results of this study accept hypothesis one (H1). The results of this study support the results of research conducted by (Nugraheni & Triatmoko, 2017) and (Agustina & Pratomo, 2019). With the results of this study, it is concluded that there is a relationship between financial leverage on the possibility of fraudulent financial statements. The research results are because companies can take loans for operational financing for company development. With increased loans, operational funds increase. An increase in operational funds will increase production and increase sales. This increase in sales causes profits to increase and pressure on management to decrease so that fraud is committed with minimal occurrence.

The Effect of Ineffective Monitoring on Fraudulent Financial Reporting

H_{2a} testing shows that the effect of the ineffective monitoring variable proxied by the ratio of independent commissioners (BDOUT) on the probability of a company committing fraudulent financial reporting obtained a significance value of 0,042 < α (5%) and t_{hing} of 2,042 while the $_{table}$ is 1,96. The results of this hypothesis test show that *ineffective monitoring* proxied by independent commissioners (BDOUT) has a **significant** effect on *fraudulent financial reporting*. This means that $\mathbf{H_{2a}}$ is **accepted.** This study's results align with those (Kurnia & Anis, 2017) and (Skousen, 2004) shows that *ineffective monitoring* of independent commissioners doesn't affect *fraudulent financial reporting*.

This doesn't rule out the possibility of a board of commissioners from outside the company, which aims to increase the effectiveness of the board in overseeing the company to prevent fraud, has not become a necessity, and the company is only limited to fulfilling regulations from the BEI in fulfilling good corporate governance. At the same time, in practice, they can still be influenced or intervened by the company.

H_{2b} testing proves that the effect of the *ineffective monitoring* variable proxied by the percentage of institutional ownership (BLOCK) on the probability of a company committing *fraudulent financial reporting* obtained a significance value of 0,477>a (5%) and a $_{count}$ value of -0,712 while the $_{table}$ value is 1,96. The results of this hypothesis test show that ineffective monitoring proxied by the percentage of institutional ownership (BLOCK) has **no harmful and insignificant** effect on fraudulent financial reporting. This means that $\mathbf{H_{2b}}$ **is rejected**.

This is consistent with the research of Abbott *et al.* (2002), which found that institutional ownership harms the possibility of fraudulent financial reporting. Low institutional ownership indicates that the company will not commit fraudulent financial reporting because there is no pressure that is heavy enough for the company to commit fraud on the company's financial statements. This is because there is cooperation between institutional ownership and company management for the best interests.

The effect of Family Share Ownership strengthens the relationship of *External Pressure (Leverage)* on *Fraudulent Financial Reporting*

H_3 testing shows that the effect of the family share ownership variable (FO) in moderating the *External Pressure* variable proxied by the company's financial leverage on *fraudulent financial reporting* actions obtained a significance value of 0,466>α (5%) and the $_{account}$ value is 0,729 while the $_{table}$ value is 1,96. The results of this hypothesis test indicate that the interaction variable of family share ownership (FO) cannot mediate the effect of *External Pressure* on *fraudulent financial reporting*. This means that $\mathbf{H_3}$ **is rejected**.

Family share ownership cannot influence strong corporate governance, so on average, companies with family ownership are associated with higher earnings quality. Therefore, family companies do not need to practice fraudulent financial reporting. According to (KNKG, 2006), one of the essential corporate organs in GCG is the board of commissioners. The composition of board of commissioners, one of which is an independent commissioner, plays a role in overseeing the running of the company so that the majority shareholder in a family company does not have the opportunity to control the company to benefit himself, which can harm minority shareholders. Independent commissioners also serve as a mediator between majority and minority shareholders to obtain appropriate rights and reduce conflicts between majority and minority shareholders (Andersen & Reeb, 2004).

The effect of Family Share Ownership strengthens the relationship between *Ineffective Monitoring* on *Fraudulent Financial Reporting*

H_{4a} testing shows that the effect of the family share ownership variable (FO) in moderating the *ineffective monitoring* variable proxied by the ratio of independent commissioners (BDOUT) on the probability of a company committing fraudulent financial reporting obtained a significance value of 0.275>α (5%) and the $_{count}$ value is -1,094 while the $_{table}$ value is 1,96. This hypothesis test showed that the interaction variable of family share ownership (FO) could not mediate the effect of *ineffective monitoring* on *fraudulent financial reporting*. This means that **H_{3a} is rejected.**

Family companies can reduce or even eliminate *agency problems*; there is no conflict between management and company owners because decision-making and control are carried out by the same agent, namely the family. The existence of company owners acting at the same time as management can provide incentives for management to monitor directly and use voting power that minimises less productive business activities so as not to lead to indications of opportunities for fraud. In addition, management consisting of family members will not engage in opportunistic behaviour because it will damage the company's long-term performance and damage the family's reputation. The concern of company owners and managers for the image and long-term goals of the company motivates them to increase company value by presenting quality financial reports rather than manipulating financial reports.

H_{4b} testing shows that the effect of the variable family member share ownership variable (FO) in moderating the ineffective monitoring variable proxied by the percentage of institutional ownership (BLOCK) on the probability of a company committing fraudulent financial reporting actions obtained a significance value of 0,250>α (5%) and the $_{count}$ value is 1,152 while the t_{able} value is 1,96. This hypothesis test showed that the interaction variable of family share ownership (FO) could not mediate the effect of ineffective monitoring on fraudulent financial reporting. This means that **H_{4b} is rejected**.

Companies with a concentrated ownership structure in the family will usually combine the company's management and control functions so there can be non-optimal investment decision-making, namely when appointing family members who could be more competent to run business ventures. Non-optimal investment decisions will benefit the family and harm minority shareholders due to differences in interests between the two types of shareholders. (Fama and Jensen, 1983). Companies with poorly performing management will be less disciplined when using their freedom in using accounting policies, especially those related to reporting. Therefore, fraudulent financial reporting practices are possible in presenting financial statements used as a basis for making investment decisions.

CONCLUSIONS

Investors, regulators, and other stakeholders are concerned about the possibility of fraudulent financial statements. Fraud of this nature compromises the integrity of financial reporting and may have significant repercussions for the implicated organisations and the stakeholders in those companies. This study evaluates the impacts of fraudulent financial reporting, the moderating function of family share ownership, and the effects of external pressure and inadequate supervision.

According to the findings of our research, the use of deceptive financial reporting is significantly impacted negatively by the use of leverage as a proxy for external pressure. Other studies have also discovered a negative correlation between leverage and dishonest financial reporting, similar to the finding this work has produced. This finding may have several potential explanations, one of which is that businesses with significant leverage will likely be subjected to higher scrutiny from lenders and other stakeholders, making engaging in deceptive financial reporting more difficult.

On the other hand, more monitoring is needed to impact the presentation of false financial information substantially. Previous research has discovered a positive link between inefficient monitoring and dishonest financial reporting; hence, this result surprises those findings. This conclusion may have several potential explanations, one of which is that the businesses that made up our sample may already have efficient monitoring procedures. However, these processes are not represented by our proxy variable.

Also, the moderating effect of family share ownership on the relationship between leverage and misleading financial reporting is something that we look into. According to the findings of our study, the effect of leverage on dishonest financial reporting is not mitigated by the holding of shares by family members. Based on these findings, the detrimental effect of leverage on dishonest financial reporting is unaffected by the presence of family ownership of shares.

Lastly, we investigate the impact of family share ownership on the correlation between insufficient monitoring and fraudulent financial reporting and find that it has a moderating effect. According to our study's findings, inefficient monitoring's impact on dishonest financial reporting is exacerbated when family members possess shares in the company. Based on these findings, family-owned businesses are likely more susceptible to dishonest financial reporting when the monitoring mechanisms within those businesses are weak.

Our research has several repercussions that investors, regulators, and other interested parties should consider. To begin, our research leads us to believe that businesses operating with a high level of leverage may have a lower propensity to participate in misleading financial reporting. As a result, stakeholders may pay closer attention to organisations with minimal leverage because these companies may be more susceptible to fraudulent financial statement activity.

Second, based on our data, inefficient monitoring could not be a substantial risk factor for dishonest financial reporting. Therefore, businesses should continue to prioritise developing efficient monitoring methods to prevent fraudulent financial reporting.

Thirdly, our research results imply that family-owned businesses may be more susceptible to misleading financial reporting when the monitoring procedures within those businesses are inefficient. As a result, government regulators and other stakeholders should concentrate their attention on businesses that families own and encourage those businesses to put in place efficient monitoring systems.

Our research has several areas for improvement that should be addressed in subsequent investigations. To begin, our sample is restricted to businesses operating within a single industry, which may make it difficult to generalise the results of our research. In a subsequent study, it may be possible to increase the sample size by including businesses operating in different sectors to obtain more reliable results.

The second limitation of our research is that it only covers one time period. To study the consistency of our findings over time, potential future research might increase the scope of the analysis to cover a more extended period.

REFERENCES

Belkaoui, A., & dkk. (1993). Accounting Theory, Terjemahan Herman Wibowo. Edisi kedua. Jakarta: Erlangga.

Tuanakotta, Theodorus M. 2007. Akuntansi Forensik dan Audit Investigatif. Jakarta: Lembaga Penerbit Fakultas Ekonomi Universitas Indonesia Rezaee, Zabihollah. 2002. Financial Statement Prevention and Detection. John Wiley &sons, Inc.

Soselisa, Rangga dan Mukhlasin. 2008. “Pengaruh Faktor Kultur Organisasi, Manajemen, Strategik, Keuangan, dan Auditor Terhadap KecendeRunsgan Kecurangan Akuntansi: Studi pada Perusahaan Publik di Indonesia.” Simposium Nasional Akuntansi XI, Pontianak, Indonesia, 23-24 Juli 2008.

Boediono, Gideon. 2005. Kualitas Laba: Studi Pengaruh Mekanisme Corporate Governance dan Dampak Manajemen Laba dengan Menggunakan Analisis Jalur. Simposium Nasional Akuntansi (SNA) VIII Solo.

Heriyati, D. (2011). Analisis Pengaruh Fraud Triangle Terhadap Kecenderungan Kecurangan Akuntansi (Studi pada Perusahaan Publik di Indonesia Periode 2000-2009). Universitas Brawijaya, Fakultas Ekonomi dan Bisnis, Malang

Skousen, J.C., Wright, J.C., Smith Kevin, R. 2009, “Detecting and Predicting Financial Statement Fraud: The Effectiveness of The Fraud Triangle and SAS No. 99.” Corporate and Firm Performance Advances in Financial Economics, Vol. 13, h. 53-81.

American Institute of Certified Public Accountants (AICPA). 2002. “Consideration of Fraud in a Financial Statement Audit.” Statement on Auditing Standards No. 99. New York, NY: AICPA.

Aprilia, R. 2017, Pengaruh Financial Stability, Personal Financial Need, Ineffective Monitoring, Change in Auditor dan Change In Director terhadap Financial Statement Fraud dalam Perspektif Fraud Diamond (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di BEI periode 2012 – 2014). JOM Fekon Vol.4 No.1

Association of Certified Fraud Examiners (ACFE). 2016. Report to Nation. Diambil dari http://www.acfe.com/rttn2016/images/fraud-tree.jpg

Beasley, M. (1996). An empirical analysis of the relation between the board of director composition and financial statement fraud. The Accounting Review, 71(4)

Cressey, D. 1953. Other people’s money, dalam: The Internal Auditor as Fraud buster, Hillison, William. et al. 1999. Managerial Auditing Journal, MCB University Press

Afifa, Nabila., dan Daljono. (2013). Pengaruh Proporsi Dewan Komisaris Independen, Komite Audit, dan Reputasi Auditor Terhadap Manajemen Laba. Diponegoro Journal Of Accounting. Vol. 2 No. 1. hal. 1-10.

Rachmania, A. (2017). Analisis pengaruh fraud triangle terhadap kecurangan laporan keuangan pada perusahaan makanan dan minuman yang terdaftar di Bursa Efek Indonesia periode 2013-2015. Jurnal Online Mahasiswa (JOM) Bidang Akuntansi, 2(2).

Putri, I G. A. E. P., Sulindawati, Ni Luh Gede E. & Atmadja, A. T. (2017). Pengaruh financial target dan ineffective monitoring terhadap terjadinya fraud: Studi kasus pada koperasi serba usaha dana Pertiwi Seririt, Kecamatan Seririt, Kabupaten Buleleng, Provinsi Bali. Jurnal Akuntansi Program S1, 7 (1).

Albrecht et al. (2011). “Asset Misappropriation Research White Paper for the Institute for Fraud Prevention”. Cengange Learning. E-Book

Jensen, M., C., dan W. Meckling, 1976. “Theory of the firm: Managerial behavior, agency cost and ownership structure", Journal of Finance Economic 3:305- 360.

Deegan, C. 2002. Introduction: The Legitimising Effect of Social and Environmental Disclosure – A Theoretical Foundation. Accounting, Auditing, and Accountability Journal, Vol.5 No.3: 282-311.

Deegan, C. 2004. Financial Accounting Theory. McGraw-Hill Book Company: Sydney.

William R Scott. 2000. Financial Accounting Theory. Canada: Prentice Hall, 2nd Edition.

William R Scott. 2003. Financial Accounting Theory. Third Edition, Toronto, Ontario: Pearson Education Canada Inc.

William R Scott. 2009. Financial Accounting Theory. Fifth Edition. Pearson Prentice Hall: Toronto. Financial Accounting Theory (Craig Deegan) 2007

Albrecht, W. S. (2011). Fraud Examination (Fourth ed.). South-Western: Mason

Claessens, Stjin, Djankov, Simeon, and Larry H. P. Lang. 2000. The Separation of Ownership and Control in East Asian Corporation. Journal of Economic Literature Classification: G32, L22

Scott, R. W. 1997. Financial Accounting Theory. New Jersey: Prentice Hall.

Morck R., D. Wolfenzon and B. Yeung, (2005) Corporate Governance, Economic Entrenchment, and Growth, Journal of Economic Literature, Vol XLIII, pp. 655-720

Family Firms Mike Burkart, Fausto Panunzi and Andrei Shleifer the Journal of Finance Vol. 58, No. 5 (Oct., 2003), pp. 2167-2201

Donnelley, R. G. 2002. Menguak Perusahaan Keluarga di Indonesia, artikel Eksekutif.

Andres, C. (2008) Large Shareholders and Firm Performance: An Empirical Examination of Founding Family Ownership. Journal of Corporate Finance, 14, 431-445.

Diyanti, V., Utama,S., Rossieta,H., dan Veronica,S. 2013. Pengaruh Kepemilikan Pengendali Akhir, Kepemilikan Keluarga serta Praktek Corporate Governance Terhadap Transaksi Pihak Berelasi dan Kualitas Laba. Simposium Nasional Akuntansi XVI Manado, hal 213-247.

Anderson, R. C. & Reeb, D. M. (2003). Founding-family ownership and firm performance: evidence from the S&P 500. The Journal of Finance, 58 (3),1301-1328.

Cooper, D.R., and Schindler, P.S. 2006. Business Research Methods (9th ed.). New York: McGraw-Hill/Irwin.

Received: Apr 12, 2023 Revised: Apr 20, 2023 Accepted: Sep 04, 2023