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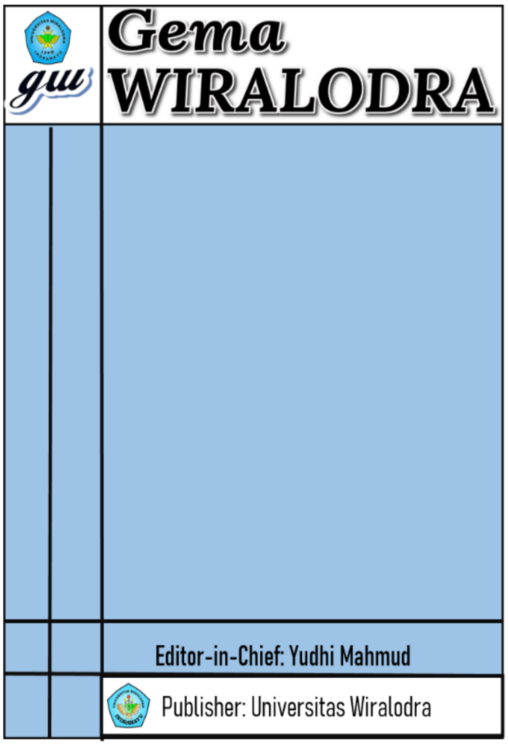

Analysis the effect of the fraud triangle on fraud report finance use beneish M-Score model

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Orginal Article

Analysis the effect of the fraud triangle on fraud report finance use beneish M-Score model

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Abstract
Previous or relevant research is fundamental in a research or scientific article. Previous or relevant research strengthens the theory and phenomena of the relationship or influence between variables. This article reviews the factors that influence financial statement fraud, namely external pressure (pressure), nature of the industry (opportunity), and rationalization (justification), all of which are factors of the fraud triangle, a study of accounting literature using the ability of the beneish m-score. This article aims to build a hypothesis on the influence between variables to be used in further research. The results of this literature review article are (1) pressure affects fraudulent financial statements, (2) opportunities influence fraudulent financial statements, and (3) justification affects fraudulent financial reporting.
Keywords: Financial Statement Fraud, Pressure, Opportunity, and Justification

1. Introduction

Financial statement fraud has increased frequently in recent years and has received attention from the public, investors, auditors, creditors, researchers, academics, and other stakeholders. Financial statement fraud usually occurs in the form of falsifying financial reports to obtain some form of profit, and manipulated elements are carried out by exaggerating assets, sales, and profits or by understating liabilities, costs, or losses (Dalnial et al., 2014).

Market participants such as investors and creditors suffer significant financial losses when fraud occurs in public companies. For example, the frauds at Enron and WorldCom resulted in investors losing more than $120 billion (Sridharan et al., 2002). In addition, fraudulent financial reporting can erode public confidence regarding the reliability and accuracy of financial reporting and company assessments and decision-making in the future.

Several researchers stated that financial ratios effectively detect fraud (Dalnial et al., 2014). However, the opposite was conveyed (Kaminski et al., 2004), which concluded different things when they argued about the limitations of financial ratios. Several models, such as the Beneish M-score, Dechow F-score, and Altman Z-score, use different financial ratios to detect fraud. The application of this model is usually used to detect earnings manipulation, and previous studies also confirm its ability to detect fraudulent financial statements.

In this article, we will present an article discussing the fraud triangle using the Beneish M-score to detect fraudulent financial reporting. This aims to make it easier for lecturers, students, researchers, and other functional staff to find relevant articles to strengthen the theory under study and determine hypotheses. This article discusses the effect of pressure, opportunity, and justification on fraudulent financial statements, a literature review study in accounting. Based on the background, the problems that will be discussed can be formulated to build hypotheses for further research: (1) Does pressure affect fraudulent financial reporting? (2) Does opportunity affect fraudulent financial reporting? (3) Does justification affect fraudulent financial reporting?

2. Method

The method of writing scientific articles is a qualitative method and literature review (library research). Examine the theory and the relationship or influence between variables from books and journals both offline in the library and online sourced from Mendeley, Scholar Google and other online media. In qualitative research, literature review must be used consistently with methodological assumptions. This means that it must be used inductively so that it does not direct the questions posed by the researcher. One of the main reasons for conducting qualitative research is that it is exploratory (Hasyim & Ali, 2022) and (Ali & Limakrisna, 2013).

3. Discussion

a) Effect of pressure on fraudulent financial reporting

Research shows that pressure affects fraudulent financial reporting (Irwandi et al., 2020.), which states that pressure on a company's financial condition can be seen from the condition of its assets. Management will manipulate financial reports if the company's growth is below average, for example, by increasing the company's prospects. Likewise, management will manipulate financial reports to make them more stable if the company is proliferating. Managers will not manipulate financial reports to improve the company's prospects when the financial condition is unstable or declining because this will only worsen the financial condition in the future.

The results of the external pressure variable proxied by leverage (LEV) show a significant influence on the possibility of fraudulent financial reporting (Puspitaningrum et al., 2019). The results of this study are by the results of the studyZaki (2017), and Rahma & Suryani (2019).

b) Effect of Opportunity on fraudulent financial statements

The research results found a positive influence between the nature of the industry and fraudulent financial statements (Kuang & Natalia, 2023). Trade receivables and inventories are accounts that require subjectively determined estimates to identify collectible receivables, and this can be used as an opportunity to manipulate financial statements (Summers & Sweeney, 1998). Subjectively, management uses these accounts to estimate larger budgets and create liquid and easily transferable accounts, such as reducing cash available for operating activities. The results of this study support research (Irwandi et al., 2019; Sari et al., 2019 and Triyanto, 2019), which found a positive influence between the nature of the industry and fraudulent financial statements.

Inventory is one of the liquid accounts that is easily moved, so it becomes a tool used by management to commit fraudulent financial statements (Irwandi & Ghozali, 2020). This research is conducted by Skousen et al. (2009), which shows that the nature of industry proxied by the ratio of changes in trade receivables has a significant effect on financial fraud.

c) Effect of Justification on fraudulent financial statements

Asset growth measures financial stability variables. When there is an increase in significant asset growth, the possibility of fraud will also increase. This is because growth that is too fast indicates an unstable company condition.

For companies that are in a period of growth below the industry average, management will have the potential to commit fraudulent actions to show that the company is in a stable condition and that the financial statements look attractive to information users. Company management can feel pressure if the company's condition is unstable. This kind of pressure can be caused because the company's low performance can reduce the attractiveness of investors (Report et al., 2019).

The results of this research conducted by (Kuang & Natalia, 2023)stated that there is a positive influence between justification and fraudulent financial statements. This gives a signal that

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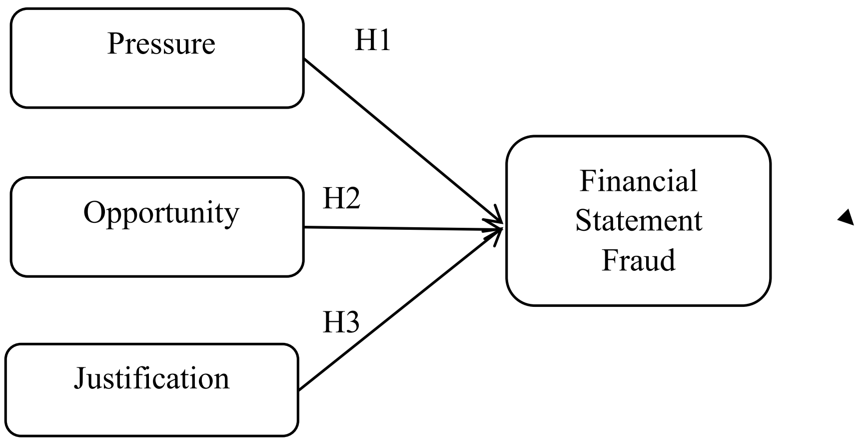
when committing fraud, management uses the accrual principle, which shows the rationalization carried out by management, which is carried out by recognizing profits based on the principle of recognizing unearned income. The results of this study are in line with the results of research from Yesiariani & Rahayu (2017), Irwandi et al., 2020; Kuang & Natalia (2023), Narsa et al. (2023), which found an influence between justification and fraudulent financial statements.

Conceptual Framework

Based on the formulation of the problem, theoretical studies, relevant previous research and discussion of the influence between variables, the framework of this article is processed as follows.

Figure 1
Conceptual framework



Conceptual framework picture above, pressure, opportunity, and justification have an effect on fraudulent financial reporting. Apart from these three exogenous variables that influence financial statement fraud, there are many other variables that influence it, including:

a) Ability (Manurung & Harsika, 2015; Ruankaew, 2016; Alao, 2016; Gisairo, 2016)
b) Corporate Governance (Gbegi &Adebisi, 2013)
c) *Greed, Opportunity, Need* and *Exposes* (Isgiyarta et al., 2018; Tuanakotta, 2010)

4. Conclusion

Based on the theory, relevant articles and discussion, hypotheses can be formulated for further research: (1) Pressure has an effect on fraudulent financial statements. (2) Opportunities influence the fraudulent financial statements. (3) Justification has an effect on fraudulent financial statements. Based on the conclusions, the suggestion in this article is that there are many other factors that influence fraudulent financial statements, apart from the pressures, opportunities and justifications at all types and levels of organizations or companies, therefore further studies are still needed to looking for any other factors that can affect fraudulent financial statements other than the variables examined in this article. Other factors such as ability (capability), greed, opportunity, need, expose and corporate governance.

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