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# The Effect of Financial Reporting on Company Value The Impact of Company Financial Statement Fraud

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***Abstract:*** *The purpose of the study is to find out and analyze more deeply the impact of financial statement fraud on the value of companies in the housing construction sector. We use panel data analysis to uncover connections between external pressures, industry research, and financial statement fraud. We know financial fraud is common in developed countries among property developers, but relatively limited in developing countries. Investors play an important role in diamond fraud and financial statement fraud, as they significantly affect the value of the company. So, accurate information that reflects actual conditions without resorting to fraudulent practices. Transparency in financial reporting is essential to safeguard the interests of internal and external stakeholders. We suggest enhancing the role of Internal Audit and implementing robust risk management measures to strengthen internal control mechanisms and enable business expansion and innovation. Our main goal is to eradicate financial fraud, thereby increasing the overall value of companies in the Property and Real Estate sector.*

***Keywords:*** *Fraud Financial statements, External pressure, nature of Industry, Rationalization, Capability, and Company Value (PBV).*

***Abstrak*** *Tujuan penelitian adalah untuk mengetahui dan menganalisis lebih dalam dampak kecurangan laporan keuangan terhadap nilai perusahaan di sektor konstruksi perumahan. Kami menggunakan analisis data panel untuk mengungkap hubungan antara tekanan eksternal, riset industri, dan penipuan laporan keuangan. Kita tahu penipuan keuangan biasa terjadi di negara maju di kalangan pengembang properti, namun relatif terbatas di negara berkembang. Investor memainkan peran penting dalam penipuan berlian dan penipuan laporan keuangan, karena mereka secara signifikan mempengaruhi nilai perusahaan. Jadi, informasi akurat yang mencerminkan kondisi aktual tanpa menggunakan praktik penipuan. Transparansi dalam pelaporan keuangan sangat penting untuk menjaga kepentingan pemangku kepentingan internal dan eksternal. Kami menyarankan untuk meningkatkan peran Audit Internal dan menerapkan langkah-langkah manajemen risiko yang kuat untuk memperkuat mekanisme pengendalian internal dan memungkinkan ekspansi dan inovasi bisnis. Tujuan utama kami adalah untuk memberantas penipuan keuangan, sehingga meningkatkan nilai keseluruhan perusahaan di sektor Properti dan Real Estat.*

***Kata kunci:*** *Fraud Laporan keuangan, Tekanan eksternal, Sifat industri, Rasionalisasi, Kemampuan dan Nilai Perusahaan (PBV).*

## INTRODUCTION

The primary purpose of financial statements is to provide comprehensive data pertaining to an entity's financial health, performance, and cash flow. This information is of utmost importance in facilitating the complex process of making informed economic decisions, as highlighted by the Indonesian Institute of Accountants (2022). Financial reports, therefore, play a pivotal role in demanding precise, pertinent, and high-quality presentation by a company's management. Regrettably, the landscape of financial reporting often reveals the presence of fraudulent activities that manifest as substantial distortions or material misstatements within the financial statements. These fraudulent actions tarnish the reliability of financial reports, as they entail a deceitful presentation that incorporates misleading elements. Such inaccuracies can have a detrimental impact on the decision-making process of users who rely on financial statement information (Fauziah et al., 2023).

With a strong impetus to bolster the credibility and integrity of their financial statements, management is often motivated by the desire to portray favorable financial outcomes. This inclination stems from the overarching goal of ensuring shareholder satisfaction and consequently driving up the company's stock values. However, in the pursuit of these objectives, management may find themselves compelled to adopt unscrupulous measures to maintain the façade of their financial statements, potentially resorting to practices that deviate from ethical norms and principles. These actions can include the manipulation of financial data, selective reporting of financial metrics, or even the misrepresentation of key financial indicators, all of which are aimed at creating a more positive perception of the company's financial health and performance. This underscores the critical importance of ethical governance and robust regulatory frameworks that serve to safeguard the transparency and accuracy of financial reporting practices, thereby fostering trust and confidence among stakeholders and investors alike.

According to the survey findings, Corruption emerges as the most expensive form of fraud in Indonesia. A significant 64.4% of respondents highlighted corruption as the most detrimental fraud in the country. Following closely, 20.9% of participants identified the misappropriation of state and company assets as a major cause of financial losses. Additionally, 22 respondents, accounting for 9.2%, attributed losses to financial statement fraud.

The Association of Certified Fraud Examiners (ACFE) is actively engaged in combating fraudulent activities by focusing on preventive measures, including educational initiatives. (ACFE, 2020) outlines three primary aspects

characterizing fraudulent behavior within companies, one of which is known as the "fraud tree," representing misuse of assets, corruption, and manipulation of financial statements. Intentional misrepresentations, omissions, or misleading disclosures in financial statements, termed financial reporting fraud or fraudulent financial reporting, aim to deceive stakeholders. Left unchecked, this form of fraud can persist. Extensive research has consistently identified three interrelated conditions—pressure, opportunity, and rationalization—as the key drivers compelling individuals to engage in financial statement fraud.

The property and real estate sector in Indonesia is currently facing a significant fraud case that demands attention. The chosen focus of the research is on property and real estate companies due to the rising number of project developers involved in constructing various types of housing, including houses and apartments. The growth of this sector, such as property and real estate, creates an environment conducive to fraudulent activities. One specific case of fraud that has emerged, particularly within the real estate and property sector, involves the manipulation of financial statements by PT Hanson Internasional Tbk. This manipulation specifically relates to the accounting presentation of revenue generated from the sale of ready-to-build lots (Kasiba), resulting in an overstatement of revenue in the financial statements for that year by a substantial amount of Rp 613 billion. PT Hanson Internasional Tbk has been proven to have violated certain regulations and standards.

PT Hanson Internasional Tbk failed to comply with the requirements stated in Statement of Financial Accounting Standards 44, which pertains to Accounting for Real Estate Activities (PSAK 44). Specifically, when employing the full accrual method to recognize revenue, the company was obligated to disclose the Sale and Purchase Agreement (PPJB). Regrettably, PT Hanson Internasional Tbk neglected to submit the PPJB to the auditor responsible for auditing the financial statements (source: https://www.kompasiana.com/ 17 July 2022).

The current investigation relies on previous studies that have highlighted the lack of consensus and the diverse array of outcomes concerning the factors that contribute to financial statement fraud. The specific variables chosen for this research have been selected on the basis of the components inherent to the Fraud Diamond, which is considered a more recent and evolved framework compared to the traditional Fraud Triangle. The adoption of the Fraud Diamond framework stems from its comparative novelty and the relatively limited application it has seen in the realm of identifying fraudulent financial activities. The central objective of this study is to integrate the firm value

variable as the dependent measure, thereby facilitating a comprehensive analysis of the potential impact that instances of financial statement fraud might have on the overall value and standing of a company.

## LITERATURE REVIEW and HYPOTHESES DEVELOPMENT

### 1.2. Agency Theory

Signal theory, as noted by (Jama'an, 2008), outlines the means by which a company can communicate effectively with users of financial statements. This communication takes the form of information regarding management's efforts to fulfill the owner's objectives. The theory posits that managers engage in signaling to mitigate information asymmetry. By adhering to conservative accounting policies, managers provide information through financial statements that yield higher quality earnings. This approach prevents companies from inflating profits and ensures that financial statements accurately reflect earnings and assets.

Further, Jama'an in (Suryani & Herianti, 2015) propose the employment of signaling theory to guide companies in effectively communicating with users of financial statements. This communication takes the form of providing information regarding the actions taken by the company to fulfill the objectives of its stakeholders. Enterprises with promising prospects will strive to refrain from selling their shares and explore alternative avenues to secure additional capital. Conversely, if the prospects are deemed less favorable, they will be inclined to divest their shares.

The theoretical foundation that governs corporate business practices up to this point is agency theory (Meckling & Jensen, 1976). This theory elucidates the dynamic between shareholders, who act as principals, and management, who act as agents, within a cooperative agreement. The practice of companies disclosing annual reports to shareholders is underpinned by the principles of agency theory, as established by Jensen and Maling (Hidayat, 2017).

Agents possess greater knowledge regarding their own capacity, work environment, and the future prospects of the company compared to the principal (Hidayat, 2017). This disparity in information ownership between the principal and the agent leads to information asymmetry, giving rise to agency problems. These problems arise when parties with divergent personal interests collaborate in the allocation of distinct authorities. Consequently, the principal is at a disadvantage as they lack sufficient information and access to effectively manage the company.

(Rimardhani et al., 2016) elucidate that Agency theory clarifies the contractual bond between managers (agents) and company owners (principals), wherein company owners entrust managers with decision-making responsibilities. The dichotomy between company owners and managers can lead to predicaments as both parties strive to optimize their interests.

The presence of agency theory is anticipated to instill trust in investors that they will receive returns commensurate with their invested funds.

According to the viewpoints expressed by various experts earlier, it can be inferred that agency theory entails the delegation of authority from company owners (shareholders) to company management for the purpose of executing company operations as per the mutually agreed contract. In the event that both parties share a common objective of enhancing company value, the management will duly align their actions with the best interests of the company owners.

The ACFE (ACFE, 2020) disclosed that fraudulent practices involve the deliberate presentation of unreliable or misleading information, resulting in financial losses for individuals and entities. These unlawful acts are committed by individuals responsible for corporate governance, including employees, management, and third parties, with the intention of gaining unfair or illegal advantages (IAPI, 2013).

The categorization of fraud by ACFE comprises of three distinct types, which are:

1. Corruption This action can be carried out by company management or executives in order to obtain personal gain. ACFE divides Corruption into 2 types, namely:
    1) Conflict of interest conditions that occur when the individual is involved in cooperation and has a special relationship with outsiders or other parties. When an interested party has a special purpose, the individual who cooperates with him can help with all efforts so that the interested party benefits. This situation often occurs in companies and countries with weak legal systems.
    2) Bribery This condition occurs when the individuals involved divulge company secrets because they receive bribes from outside parties.
    3) Asset Misappropriation Actions taken by misusing assets such as embezzling or stealing company assets with the aim of self-interest. Asset Misappropriation is divided into two types, namely, Cash Misappropriation (misuse of assets in the form of cash) and Non-Cash Misappropriation (misuse of assets in the form of company institution facilities for personal gain).
2. Financial Reporting Fraud This action can be carried out by management by presenting financial reports that are not relevant and reliable. The information provided is in the form of falsification of transaction evidence, recognition of the size of transactions, application of accounting methods, recognition of assets, and recognition of liabilities that are wrong but done intentionally. Financial reporting fraud that is done on purpose can deceive users of financial statements. So that the information provided can influence decision-making and have an impact

on future losses.

The concept of Fraud Diamond, introduced by (Wolfe & Hermanson, 2004), offers a fresh perspective on the phenomenon of fraud. It serves as an enhancement to the "Fraud Triangle" theory by (Clinard & Cressey, 1954). (Clinard & Cressey, 1954) original research focused on 113 individuals involved in embezzlement within various companies, aiming to identify the underlying motivations behind their fraudulent actions. However, as time progressed, an additional factor emerged that plays a crucial role in driving individuals towards fraud. This factor, known as Capability, is a qualitative element introduced by the Fraud Diamond theory, which is believed to exert a significant influence on fraudulent behavior.

1) Fraud Diamond Element

(Clinard & Cressey, 1954) original fraud model has undergone refinement resulting in the Fraud Diamond theory, which encompasses multiple components, including:

a). Incentive/Pressure

Economic pressure is connected to an individual's lifestyle, while nonfinancial pressure is associated with greed and a lack of financial discipline. At the organizational level, supervisors or colleagues may need to manipulate figures, policies, and guidelines to fulfill a particular requirement (PEPRAH, 2018).

Every wrongdoer must confront a certain form of coercion to carry out deceit. The motivation that drives the wrongdoer to partake in immoral conduct is known as perceived pressure. This particular form of pressure can manifest itself among all individuals and at every hierarchical level within the organization, and can arise due to diverse factors (Ruankaew, 2016).

a) Opportunity

Opportunity arises when weak internal control, inadequate supervision, or a strategic position come into play. By leveraging a specific condition or position, an individual gains the freedom to oversee the interests of numerous individuals. As Ruankaew (2016) suggests, opportunity stems from the absence of structure and governance in managing a company's operations and asset utilization. It is the vulnerability in internal control that serves as the main catalyst for fraudulent activities to take place.

b) Rationalization

Rationalization is the process of justifying one's thoughts when engaging in criminal acts. Detecting fraud, such as earnings management, becomes challenging due to the elusive nature of rationalization. Earnings management involves management's decision-making process, which can potentially facilitate financial statement fraud

(Rasiman & Rachbini, 2018).

Rationalization grants fraudsters the ability to perceive their illicit deeds as permissible. Justifications, such as succumbing to the allure of fraud due to the belief that their colleagues partake in similar acts without facing repercussions, serve to rationalize the occurrence of fraud. Ultimately, this act of rationalization merely leads to the evasion of accountability for the fraudulent acts committed, as it overlooks the perpetration of fraud persists unabated (Zulaikha & Hadiprajitno, 2016). Ultimately, this act of rationalization merely culminates in the absolution of the fraud that has transpired, particularly if the fraudulent activities persist without interruption.

c) Capability

The ability to make the most of one's surroundings is known as capacity or capability. This skill is often used to bypass internal controls and legitimize actions that are forbidden within an organization. (Arles, 2014) highlights the connection between this concept and the Fraud Diamond theory, which focuses on the motivation behind an individual's actions. This can include following established SOPs or straying from the expected course of action.

Pressure can push people to act in negative ways, often coming from higher-ups who demand tribute or require a certain amount of funds to be deposited as a reward for securing a work project budget. Weak internal controls or improper management can create opportunities for corruption, as can relationships between goods providers and contractors that allow for manipulation of tenders, prices, and licensing requirements. This can lead to non-compliance with procurement specifications and the giving of gratuities.

### 1.4.Financial Statement Fraud

Financial statements can be fraudulent if they are not in line with accepted accounting principles, whether intentionally or due to negligence. This can have a significant impact on the decisions made by those who rely on these statements. (Arjapratama et al., 2020) note that financial reports can be used to show a company's progress over time, but caution that sometimes companies may present a falsely positive image to impress stakeholders.

Companies often feel pressured to present their performance in a positive light, which can lead them to take questionable actions such as manipulating their financial statements. This kind of behavior can have negative consequences for various parties involved. To prevent such manipulation, there is an accounting policy called PSAK No.25 that aims to detect it. However, even with this policy in place, there is still a chance of errors or

mistakes when preparing and presenting financial statements. These errors can occur due to miscalculations, incorrect application of accounting policies, oversight, misinterpretation of facts, or even fraud (as stated in PSAK No. 25). In such cases, restatements of financial statements may be necessary. Financial Statement Fraud is when someone intentionally manipulates the financial statements to present false information, leading to significant errors in reporting ((Wells, 2011) in (S. Sihombing et al., 2018).

The perception of a company's success rate, known as firm value, is closely tied to its stock price (Salvatore, 2005) while Suffah and Riduwan (Suffah & Riduwan, 2016) see company Value as the perception of investors towards the company. As the stock price rises, so does the firm value, instilling market confidence not only in the company's present performance but also in its future prospects (Soebiantoro, 2007). However, the financial statements, which serve as a basis for evaluating a company's value, are prepared by the management. While management is responsible for presenting fair and accurate financial statements (PSAK No. 1, 2012), their desire to impress investors often leads them to showcase better performance than what may actually be the case. Despite this, a high company value can still inspire belief in both the company's current performance and its future state.

The eva'uation of firm value holds significant importance for investors as it serves as a key indicator of how the market perceives the overall standing of a company. Additionally, it can serve as a reflection of the total worth of a company's assets, including various securities, as noted by (Irawati, 2016). The concept of Price Book Value (PBV) serves as a valuable approach in validating a company's value. This method aids in the determination of whether the current share price is highe' or lower than the book value. The book value represents the recorded value of a company's shares, whereas the market value is influenced by the fluctuating dynamics of supply and demand within the stock exchange market. The primary objective of a publicly traded company revolves around bolstering the owner's prosperity by continually enhancing the firm value. Notably, the price book value ratio remains a critical metric utilized in the process of making informed investment decisions.

## 1.6. Hypotheses Development

Sugiyono (Sugiyono, 2017) defines a hypothesis as a provisional solution to research problems, typically presented in the form of a question. This solution is considered temporary as it is based solely on relevant theories before being supported by empirical evidence gathered through data collection. The researcher compiles the hypothesis as a temporary answer, which is then tested through the research process. The present study follows the following hypothesis

development flow:

1) The Effect of External Pressure on Financial Statement Fraud

The term "excessive external pressure" denotes the immense and often overwhelming expectations thrust upon the management of a company, compelling them to fulfill the various requisites and anticipations set forth by external entities. These external entities typically encompass a range of stakeholders, including investment analysts, investors, and creditors, who wield substantial influence over the company's operations and strategic decisions. To effectively navigate these formidable pressures and sustain their competitive edge within the market, companies might opt to pursue additional avenues for financing, such as acquiring more debt or seeking external funding from diverse sources, including research funding, developmental investments, or capital expenditures (Skousen et al., 2009). The imperative for securing external funding arises in direct correlation to the inflow of cash generated from the process of debt financing, as emphasized by Skousen et al. (2009). It is important to recognize that when confronted with an excessive external pressure scenario, the management may be inclined towards resorting to unethical practices, including the manipulation of financial statements, as a means to meet these mounting external demands.

Hypothesis 1: "External Pressure has an effect on Financial Statement Fraud."

2) The Effect of the Nature of Industry on Financial Statement Fraud

The term "nature of the industry" embodies the optimum operational state of a company or organization within its respective industry. One critical aspect within the purview of the industry's nature pertains to the status of a company's accounts receivable. A proficiently managed company typically endeavors to curtail the volume of its outstanding accounts receivable while concurrently augmenting the influx of cash receipts (Skousen & Twedt, 2009). (Dalnial et al., 2014) unveil a substantial volume of receivables in sales serves as an indicator of accounts receivable posing a heightened risk of manipulation, thereby rendering them vulnerable to potential instances of financial statement fraud. Moreover, Dalnial et al. (2014) revealed that the prominence of receivables in revenue significantly influences the likelihood of fraudulent activities. Conversely, Ariyani et al. (2015) (cited in (Dsikowitzky et al., 2017)) posit that the nature of the industry does not exert any discernible influence on the probability of fraudulent occurrences within financial statements.

Hypothesis 2: "Nature of Industry has an effect on Financial Statement Fraud."

3) The Effect of Rationalization on Financial Statement Fraud

Fraudulent activities, often fueled by rationalization, push company management to engage in deceitful actions despite their initial hesitance. The accrual principle, as highlighted by (K. Sihombing, 2016), is intricately connected to management decision-making and provides valuable understanding into the rationalization process within financial reporting.

Rationalization, as researched by Tugas (Tugas, 2012), suggests that top management perceives their fraudulent actions as a viable risk. (Skousen & Twedt, 2009) further explain that rationalization influences the subjective assessment of a company, which in turn affects its accrual value. To explore the implications of rationalization in the context of financial statement fraud, the present study has chosen to utilize the metric of Total Accruals to Total Asset (TATA) as a stand-in measurement. Interestingly, the findings of (Ardiyani & Sri Utaminingsih, 2015) revealed an absence of any statistically significant correlation between rationalization and fraudulent activities within financial statements. This discovery hints at a constrained implementation of management policies and potentially suggests a motive underlying the manipulation of earnings.

Hypothesis 3: "Rationalization has an effect on Financial Statement Fraud."

4) The Effect of Capability on Financial Statement Fraud

The process of transitioning between boards of directors involves the transfer of authority from the preceding board to the incoming one, with the ultimate objective of enhancing the overall management performance within the organization. However, this transitional phase often fosters a stressful environment, thereby augmenting the potential for financial statement fraud. The initial stages of the directorial transition necessitate a period of adaptation, which may consequently lead to suboptimal company performance.

This study basically aims to show how messing with the board of directors can affect the chances of financial statement fraud. According to (Wolfe & Hermanson, 2004), if the board isn't up to scratch, it could be a sign that something fishy is going on. They also think that shaking up the board could actually make the company do better.

Hypothesis 4: "Capability has an effect on Financial Statement Fraud."

5) External Pressure, the Nature of Industry, Rationalization, and Capability simultaneously have an influence on Financial Statement Fraud.

According to (Siddiq & Hadinata, 2016), fraud is only possible when individuals possess the capability to commit fraudulent acts. This inherent ability motivates them to seek out opportunities and exploit them. Consequently,

manipulating accounting records, intentionally misrepresenting financial statements, and purposefully misusing classification or presentation methods enable the perpetration of "External Pressure, Nature of Industry, Rationalization, and Capability to Financial Statement Fraud."

Firms involved in Financial Statement Fraud are basically cooking the books to trick the people who trust those numbers (K. Sihombing, 2016). This can have a significant impact on the decisions made by interested parties, as the values presented may not accurately reflect the company's true financial situation.

Hypothesis 5: "External Pressure, the Nature of Industry, Rationalization, and Capability simultaneously have an effect on Financial Statement Fraud."

6) The Effect of Financial Statement Fraud on Company Value

The impact of financial fraud on company performance is worth considering. According to Finerty, Hedge, and Malone (2016), financial fraud compels the individuals or entities involved to engage in fraudulent activities, ultimately drawing attention to the company's financial performance. Finerty, Hedge, and Malone (2016) further argue that the performance of a company after some time before the fraud may face an inevitable shock.in The next theory is signaling theory.

According to Jama'an in (Suryani & Herianti, 2015), Signaling theory revolves around the art of elegantly conveying a company's message to the discerning users of financial statements. This exquisite signal takes the form of a meticulously crafted narrative, revealing the profound endeavors undertaken by the company to manifest the heartfelt desires of its esteemed owner. This is an indication that fraud has an adverse effect on the performance of an organization. financial targets that are too high are considered to put pressure on management so that they are considered capable of increasing the possibility of financial statement fraud.

Hypothesis 6: "Financial Statement Fraud has an Effect on Firm Value"

## METHOD

In order to identify the ideal sample of property and real estate companies, this research employs the purposive sampling method. The selected companies must meet specific criteria, including being listed on the Indonesia Stock Exchange (IDX) between 2017 and 2021, and providing comprehensive financial reports throughout the entire five-year research period.

Twenty-one companies that fulfilled the specified criteria were chosen, and the collected financial reports encompassed a period of five years. The resulting dataset consisted of 105 observations.

**Dependent variable**

**a. Financial Statement Fraud**

Earnings management is a common method used to perpetrate financial statement fraud, as noted by (Rezaee & Kedia, 2012). The Fscore model, developed by (Dechow et al., 2011), is a useful tool for detecting financial statement fraud, as it measures accrual quality and financial performance (Skousen & Twedt, 2009). (Ismawati & Krisnawati, 2017) suggest that a fraud score model value of more than 1 indicates a high likelihood of financial statement fraud, while a value less than 1 suggests a lower likelihood.

**b. Price to Book Value (PBV)**

The PBV ratio indicates the market's valuation of a company's book value. A higher PBV suggests confidence in the company's future prospects. PBV is a ratio that reflects the market's valuation of a company's book value. It helps assess the company's ability to generate value from its invested capital (Syahyunan, 2015).

**1) Independent variables**

Within the scope of this research, the central independent variable in focus is the concept of the fraud diamond. Nonetheless, the inherent intricacies associated with directly investigating this particular independent variable necessitate the utilization of a surrogate or proxy, which explained as bellow:

**a. External Pressure**

The study uses the leverage ratio (LEV) as a proxy for external pressure.

**b. Nature of Industry**

This study utilizes the Total Receivables Ratio as a measure for the industry's nature.

**c. Rationalization**

To calculate the total accruals ratio (TATA), the accrual calculation formula by (Beneish, 1997) can be utilized.

d. Capability

Capability is represented by dummy variables indicating changes in company directors (DCHANGE).

## ANALYSIS RESULT

In this part of the study, we will test the modeling with panel data, test the assumptions, and discuss the analysis of the results of the panel data regression as follows:

**Descriptive Analysis Results**

Table 2. Descriptive Statistics

| | X1_EXTERNAL_PRESSURE | X2_NATURE_F_INDUSTRY | X3_RATIONALIZATION | X4_CAPABILITY | Y_FINANCIAL_STATEMENT_FR | Z_PBV |
|---|---|---|---|---|---|---|
| Mean | 0.403962 | -0.013524 | 0.166000 | 0.180952 | 0.657143 | 137.1078 |
| Median | 0.384000 | 0.000000 | 0.150000 | 0.000000 | 1.000000 | 82.30000 |
| Maximum | 0.835000 | 0.500000 | 0.590000 | 1.000000 | 2.000000 | 761.4100 |
| Minimum | 0.073000 | -0.960000 | 0.020000 | 0.000000 | -2.000000 | 0.290000 |
| Std. Dev. | 0.161511 | 0.197863 | 0.101760 | 0.386825 | 0.662579 | 166.4976 |
| Skewness | 0.238878 | -2.094683 | 1.440201 | 1.657482 | -0.292507 | 2.185244 |
| Kurtosis | 3.034864 | 12.45667 | 5.930448 | 3.747246 | 4.244643 | 7.128600 |
| Jarque-Bera | 1.003914 | 468.0347 | 73.86856 | 50.51970 | 8.274781 | 158.1410 |
| Probability | 0.605345 | 0.000000 | 0.000000 | 0.000000 | 0.015964 | 0.000000 |
| Sum | 42.41600 | -1.420000 | 17.43000 | 19.00000 | 69.00000 | 14396.32 |
| Sum Sq. Dev. | 2.712936 | 4.071596 | 1.076920 | 15.56190 | 45.65714 | 2883030. |
| Observations | 105 | 105 | 105 | 105 | 105 | 105 |

Upon examining the table 2, it becomes apparent that the average value

(mean) of the independent variable profitability (X1) stands at 0.403962, with a corresponding standard deviation of 0.161511. The relatively smaller standard deviation in comparison to the mean signifies a relatively narrow distribution of data points, suggesting a limited degree of variability between the lowest and highest values within the external pressure variable (X1). Consequently, this data pattern indicates a favorable consistency in the data deviation pertaining to this specific financial statement fraud metric.

Delving into the independent variable Nature of industry (X2), we observe an average of -0.013524, coupled with a standard deviation of 0.197863. The relatively larger standard deviation in relation to the mean implies a wider dispersion of data points, pointing towards a substantial gap between the lowest and highest values characterizing the Nature of industry variable (X2).

Likewise, the independent variable Rationalization (X3) demonstrates an average value of -0.166000, accompanied by a standard deviation of 0.101760. A standard deviation that is smaller than the mean suggests a significant concentration of data points, indicating a relatively diminished gap between the highest and lowest values associated with the Rationalization variable (X3).

Shifting our attention to the independent variable Capability (X4), we note an average of 0.180952, along with a standard deviation of 0.386825. The presence of a standard deviation exceeding the mean suggests a substantial distribution of data points, reflecting a notable disparity between the lowest and highest values characterizing the Capability variable (X4).

In terms of the dependent variable Financial Statement Fraud (Y), we observe an average of 0.657143, with a corresponding standard deviation of 0.662579. A standard deviation that surpasses the mean implies a relatively confined distribution of data points, indicative of a limited degree of variability between the lowest and highest values pertaining to the Financial Statement Fraud metric (Y).

Finally, with regard to the dependent variable firm value (Z), we find it to be valued at 137.1078, alongside a standard deviation of 166.4976. A standard deviation that exceeds the mean suggests a limited dispersion of data points, underscoring a restricted degree of variability between the lowest and highest values characterizing the firm value metric (Z).

Following the paired examination involving the Chow and Hausmant tests, it has been ascertained that the application of the fixed and Random Effect Models is indicated, respectively. These findings hold crucial implications in the context of deciphering the intricacies associated with the Lagrange Multiplier (LM) test within the framework of the panel data regression method. It is imperative to underscore the

significance of these outcomes, given their pivotal role in determining the most suitable approach for examining the underlying data patterns.

Furthermore, this comprehensive research delved into the intricate analysis of 21 distinct real estate companies that are actively listed on the Indonesia Stock Exchange, spanning a time period ranging from 2017 to 2021. The extensive results stemming from this rigorous investigation are meticulously detailed and presented in the tabulated format outlined below, thereby offering a nuanced understanding of the complex dynamics governing the real estate sector within the Indonesian financial landscape.

| No | Methods | Testing | Result |
|---|---|---|---|
| 1 | Chow-Test | Common Effect vs Fixed Effect | Fixed Effect |
| 2 | Hausman Test | Fixed Effect vs Random Effect | Random EffectModel |
| 3 | Lagrange Multiplier Test | Random Effect Model (REM). | Random Effect Model (REM). |

## Panel Data Regression Analysis

The fixed effect model emerges as the superior choice for interpreting panel data regression in response to this research, as evidenced by the test conducted. The outcomes of the panel data regression test utilizing the random effect model in this study are as follows:

**Table 4. Multiple Panel Data Analysis**

| *Variabel* | *B* | *t-hitung* | *Sig* | *Conclusion* |
|---|---|---|---|---|
| Konstan | 1,204 | | | |
| X1 | -1,369 | -2,886 | 0,004** | *Significant Effect* |
| X2 | -1,524 | -5,787 | 0,000** | *Significant Effect* |
| X3 | -0,037 | -0,053 | 0,957 | *No Significant Effect* |
| X4 | -0,048 | -0,309 | 0,753 | *No Significant Effect* |
| F | = | 6,614 | 0,000** | *Significant Effect* |
| R2 | = | 0,595 | | |

Y= 1,024 - 1,369(X1) – 1,524 (X2) – 0,037(X3) – 0,048(X4) + e
(0,004) (0,000) (0,957) (0,753)

**= Sig pada taraf uji 1%
*= Sig pada taraf uji 5%

Through the implementation of Eviews processing, the outcome of data estimation has been revealed. The panel data regression equation that has been derived from this analysis is as follows:

The regression equation can be explained in the following manner:

1. If the independent variable is zero, the price-to-book value remains positive at a constant value of 1.204674. This indicates that when all independent variables in this study are zero, any decrease in the dependent variable can be attributed to factors not considered in this study.
2. The coefficient for External Pressure (X1) is -1.369415, indicating that a change of 1 in External Pressure will result in a decrease of -1.369415 in Financial Statement Fraud.
3. The coefficient for the Nature of Industry (X2) is -1.524641, suggesting that a change of 1 like Industry will lead to a decrease of -1.524641 in Financial Statement Fraud.
4. The Rationalization Coefficient (X3) is -0.037750, meaning that a change of 1 in Rationalization will result in a decrease of -0.037750 in the Fraud Financial Statement.
5. The Capability coefficient (X4) is -0.048032, indicating that a change of 1 in Capability will lead to a decrease of -0.048032 in the Fraud Financial Statement. effect model. The results are presented in Table 5, which reveals the panel data regression equation.

Financial Statement Fraud = 1.204674 -1.369415 *X*1 -1.524641 *X*2 -0.037750*X*3-0.048032x4 + e

Dependent Variable: Z_PBV
Method: Panel EGLS (Cross-section random effects)Date: 03/16/23 Time: 00:24
Sample: 2017 2021
Periods included: 5
Cross-sections included: 21
Total panel (balanced) observations: 105
Swamy and Arora estimator of component variances

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| Y_FINANCIAL_STATEMENT_FR | -7.144451 | 9.938173 | -0.718890 | 0.4738 |
| C | 141.8027 | 36.38477 | 3.897310 | 0.0002 |

| Effects Specification | | |
|---|---|---|
| | S.D. | Rho |
| Cross-section random | 162.2144 | 0.8989 |
| Idiosyncratic random | 54.39106 | 0.1011 |

| Weighted Statistics | | | |
|---|---|---|---|
| R-squared | 0.005017 | Mean dependent var | 20.33230 |
| Adjusted R-squared | -0.004643 | S.D. dependent var | 54.13021 |
| S.E. of regression | 54.25572 | Sum squared resid | 303199.3 |
| F-statistic | 0.519384 | Durbin-Watson stat | 1.143710 |
| Prob(F-statistic) | 0.472737 | | |

| Unweighted Statistics | | | |
|---|---|---|---|
| R-squared | 0.005756 | Mean dependent var | 137.1078 |
| Sum squared resid | 2866436. | Durbin-Watson stat | 0.120977 |

Using Eviews processing, we have estimated the data and analyzed the impact of Fraud Financial Statement variables on Pbv through the random effect model. The results are presented in table 5, which reveals the panel data regression equation.

Y = 141.8027 + -7.144451 R + e

The regression equation provides insight into the relationship between variables and can be explained as follows:

1) If the independent variable is zero, the financial statement fraud value is positive at 141.8027. This indicates that when all independent variables are zero, factors not considered in this study cause a decrease in the dependent variable.
2) A change of 1 in Fraud Financial Statement (R) results in a decrease of Company Value by -7.144451.

## DISCUSSION

**The Effect of External Pressure on Financial Statement Fraud**

Regression analysis reveals that the External Pressure variable has a coefficient of -1.369415, means a decrease in external pressure by 1 will lead to a decrease in Financial Statement Fraud by -1.369415, holding other independent variables constant. Moreover, the prob value of External Pressure is 0.0048> 0.05, indicating that External Pressure partially affects Financial Statement Fraud. The indication is that when management faces significant pressure, it may drive them or corporate executives to participate in deceitful activities related to financial statements. To alleviate this strain, organizations must explore opportunities for obtaining more loans or external funding, aiming to maintain their competitiveness. These financing options should cover various aspects such as funding assets, fostering growth, and financing for capital expenditures (Skousen et al., 2009)

These findings align harmoniously with the preceding scholarly inquiry conducted by the esteemed scholars (Jaunanda & Agoes, 2019), whose meticulous research expounds upon the notion that "the variable of External Pressure exerts a favorable influence on the occurrence of Financial Statement Fraud." However, this effect lacks statistical significance, owing to the overwhelming burden placed upon management to fulfill the requisites and expectations of external entities. One must acknowledge that such pressure may emanate from external parties, particularly creditors, whose relentless pursuit of debt repayment renders the acquisition of funds an arduous task for the company. Conversely, the company is compelled to honor its obligations and settle all outstanding debts owed to creditors. The excessive coercion exerted by creditors to settle maturing debts compels managers to engage in the manipulation of financial reports, particularly within the realm of profitability, with the ultimate aim of enticing potential investors to allocate their resources into the company.

**The Effect of the Nature of Industry on Financial Statement Fraud**

The coefficient of the Nature of Industry variable, with a value of -1.524641, exudes a sense of profound significance. Its negative nature signifies that even the slightest decrease in the essence of Industry by a single unit will inevitably lead to a decrease in Financial Statement Fraud, with a magnitude of -1.524641, while keeping all other independent variables constant. The significance value of the Nature of Industry variable, obtained at an astonishingly minuscule 0.000, and below the esteemed threshold of 5% (0.05), allows us to confidently conclude that the Nature of Industry possesses a remarkable positive influence on Financial Statement Fraud. This revelation unveils the fact that any alteration in the very fabric of the industry's essence is intricately intertwined with a notable impact on the occurrence of financial statement fraud. Moreover, the presence of a significant p-value of 0.000 further solidifies the unwavering level of confidence in the intricate relationship between these two variables. This remarkable finding suggests that the distinctive characteristics and dynamic nature of an

industry hold an immense sway over the likelihood of financial statement fraud within that particular sector.

The particular sector within which a company operates can potentially create an environment that encourages the management or board members to manipulate financial statements. This assertion is corroborated with (Summers & Sweeney, 1998), which revealed notable variations in accounts receivables between companies involved in fraudulent activities and those that were not. The results of this investigation align with the earlier findings (Diansari & Wijaya, 2019), which emphasized the favorable correlation between alterations in the accounts receivable ratio and instances of financial statement fraud.

**Effect of Rationalization on Financial Statement Fraud**

The coefficient of the Rationalization variable, when subjected to regression analysis, reveals a remarkable value of -0.037750. This negative coefficient signifies that for every decrement of 1 in Rationalization, there is a corresponding decrease of -0.037750 in Financial Statement Fraud, while keeping all other independent variables constant.

Upon further examination, the significance value of the Rationalization variable is found to be 0.9576 <% (0.05). This statistical finding leads us to the conclusion that Rationalization does not possess a significant impact on Financial Statement Fraud. These results align harmoniously with (Permatasari & Laila, 2021).

This outcome can be attributed to the fact that the total accruals for the ratio of total assets serve as a reflection of the company's activities. It is evident that the company's overall activities play a pivotal role in determining the magnitude of these accruals. Thus, the absence of a substantial relationship between Rationalization and Financial Statement Fraud is justified by the intricate interplay between the company's activities and the aforementioned accruals.

**Effect of Capability on Financial Statement Fraud**

The regression analysis reveals a fascinating insight into the Capability variable, as it exhibits a remarkable regression coefficient of -0.048032. This coefficient, being negative in nature, signifies that even a slight decrease in Capability by 1 unit will inevitably lead to a corresponding decrease in Financial Statement Fraud by -0.048032, assuming all other independent variables remain constant.

However, the significance value of the Capability variable, obtained at a staggering 0.7573 <% (0.05), casts doubt on its impact. This statistical insignificance allows us to confidently conclude that “Capability does not possess a significant effect on financial statement fraud.” These findings contradict the theory proposed by Wolfe and Hermanson (2004), which posited that Capability indeed influences financial statement fraud.

Moreover, the study uncovers a captivating correlation between changes in directors and the intricate realm of political content and vested interests. These discovery is sounds harmoniously with (Permatasari & Laila, 2021), which similarly found no discernible effect on Financial Statement Fraud. This

revelation highlights the prevalence of minimal values within the majority of samples, indicating that a multitude of companies refrain from altering their directorship. With such a preponderance of minimum values within the sample, it becomes increasingly plausible to envision a scenario where Financial Statement Fraud remains an elusive occurrence.

**The Effect of External Pressure, Nature of Industry, Rationalization, and Capability simultaneously on Financial Statement Fraud**

The regression analysis yields a coefficient value of 1.204674, indicating that a unitary escalation in External Pressure, Nature of Industry, Rationalization, and Capability corresponds to a 1.204674 upsurge in the manifestation of financial statement fraud, provided that all other independent variables remain stable. Moreover, the computed value of Prob (F-statistic) at 0.00, falling below the designated significance threshold of 0.05, suggests the collective and simultaneous influence of these variables on the occurrence of financial statement fraud. Essentially, this underscores the potential implications of engaging in activities such as tampering with accounting records, disseminating falsified information via financial statements, and misusing principles pertaining to their classification or presentation, all of which may engender instances of financial statement fraud.

These findings resonate with the conclusions posited by (Nabila Nuha et al., 2021), which also assert the substantial impact of various factors such as financial targets, financial stability, efficacy of monitoring, the essence of the industry, modifications in auditors, and alterations within the directorial framework on the emergence of financial statement fraud.

**The effect of financial Statement Fraud on Company Value**

The regression examination yields a coefficient of -7.144451 concerning financial statement fraud and its correlation with the firm's value. This negative coefficient indicates that a reduction of 1 in the firm's value corresponds to a decrease of -7.144451. The attained significance value of 0.4738, which falls below the predefined threshold of 0.05, leads to the deduction that financial statement fraud does not exert a significant impact on the company's value. In essence, this suggests that an escalation in financial statement fraud within the company triggers a subsequent downturn in its overall worth, primarily attributed to investor concerns and the erosion of confidence in the dependability of the divulged financial statement data. The downward trajectory of stock prices further underscores the dwindling investor faith in the company, thereby contributing to the depreciation of the company's value.

These discovery align with the conclusions drawn from (Elviani et al., 2020) and (Rukmana, 2018), both of which suggest that financial statement fraud does not yield a noteworthy influence on the firm's value. Furthermore, Jama'an (cited in (Suryani & Herianti, 2015)) introduces the Signalling theory, elucidating how a company must convey

information to users of financial statements. This suggests that fraud inherently imparts an adverse effect on the company's overall value.

## CONCLUSIONS

Our exploration seeks to comprehensively investigate the impact of financial statement fraud on the valuation of a company. Through our analysis, we have uncovered a strong correlation between the exertion of external pressures and the incidence of financial statement fraud, with the specific dynamics of the industry further contributing to the incentive for company directors to engage in deceptive practices. Notably, our findings suggest that the factors of rationalization and capability do not exert any discernible influence on the occurrence of financial statement fraud. As a result, the mere act of changing auditors cannot be solely relied upon as an effective means to detect instances of fraudulent financial statements within a company. The combined effects of external pressures, industry-specific characteristics, rationalization, and capability collectively contribute to an overall influence of 29.1% on the occurrence of financial statement fraud, leaving the remaining 70.9% influenced by a myriad of factors lying outside the purview of our study. To effectively identify instances of fraud within financial reporting, we strongly advocate the implementation of the Fraud Diamond method as a robust analytical tool. It is crucial to recognize that financial statement fraud not only impairs the financial stability of a company but also undermines the pivotal role of signaling theory in effectively communicating with users of financial statements. This serves to underscore the significantly adverse implications that instances of fraud can have on the overall valuation and integrity of a firm.

The investigation bears significant implications for both investor corporations and governmental entities, fostering the enhancement of the value of companies within the realm of property and real estate in Indonesia. The findings provide invaluable guidance for corporations to bolster their firm value by meticulously considering the factors influencing financial statement deceit. Furthermore, the government can utilize the results of this inquiry as a groundwork for extending support and rendering low-interest rates to corporations that attain noteworthy levels of profitability, thereby concurrently elevating the corporations' value and cultivating efforts to stimulate further investment in the domain of property and real estate, ultimately fortifying national economic growth. Nonetheless, it is imperative to recognize certain constraints. The study relies on panel data derived from yearly financial statements of corporations in the property and real estate sector, potentially introducing constraints related to the quality and consistency of the data. Additionally, other variables that conceivably influence fraud in corporate financial statements may not be encompassed within this analysis. Further refinement is requisite in the disclosure of financial statements, as the correlation between fraud factors and financial statements can be identified, but a definitive cause-and-effect relationship cannot be guaranteed.

As such, it is crucial to take into account external factors, such as

economic conditions and policy changes, which could potentially impact the outcomes. Moreover, it is important to acknowledge that the findings of this research may not be applicable to the entire property and real estate sector in Indonesia. When interpreting and implementing the results of this study, it is essential to recognize the inherent limitations and consider them when making practical decisions and recommendations.

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