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The Influence of Auditor Opinion, Company Size, External Pressure on Fraud Financial Reporting with Industrial Conditions as Intervening Variables

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ABSTRAK

Semua perusahaan manufaktur berlomba-lomba memberikan kesan bahwa masyarakat tidak akan memilih produk alternatif serupa selain perusahaan itu sendiri, sehingga perusahaan harus memiliki strategi dan karakteristik yang membuat perusahaan tersebut semakin dikenal oleh masyarakat luas. Penelitian ini bertujuan untuk menganalisis pengaruh opini auditor, ukuran perusahaan, dan tekanan eksternal terhadap pelaporan keuangan yang curang, dengan mempertimbangkan kondisi industri sebagai variabel mediasi pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia selama periode 2017-2021. Populasi penelitian adalah 25 perusahaan dan sampel penelitian terdiri dari 22 perusahaan, dengan teknik pengambilan sampel non-probabilitas tertarget. Hasil penelitian menunjukkan bahwa opini auditor berdampak negatif terhadap pelaporan keuangan yang curang, sedangkan ukuran perusahaan berdampak negatif terhadap pelaporan keuangan yang curang. Sementara itu, tekanan eksternal berdampak positif pada pelaporan keuangan yang curang. Selain itu, kondisi industri dapat memediasi hubungan antara pertimbangan auditor dan pelaporan keuangan yang curang. Namun, keadaan industri saat ini tidak menunjukkan hubungan antara ukuran perusahaan dan pelaporan keuangan yang curang. Implikasi penelitian ini menekankan pentingnya pengawasan dan pengendalian internal yang tepat oleh perusahaan untuk mencegah dan mengatasi risiko penipuan pelaporan keuangan, serta pentingnya pengawasan auditor yang ketat dan kredibel, dan perhatian yang lebih cermat terhadap kondisi industri yang mempengaruhi tingkat fraud financial reporting.

ABSTRACT

All manufacturing companies are competing to give the impression that people will not choose similar alternative products other than the company itself, so the company must have a strategy and characteristics that make the company increasingly known to the wider community. This study aims to analyze the influence of auditor opinion, company size, and external pressure on fraudulent financial reporting, by considering industry conditions as a mediating variable in manufacturing companies listed on the Indonesia Stock Exchange during the 2017-2021 period. The study population was 25 companies and the study sample consisted of 22 companies, with targeted non-probability sampling techniques. The results showed that auditors' opinions negatively affected fraudulent financial reporting, while company size negatively impacted fraudulent financial reporting. Meanwhile, external pressures have had a positive impact on fraudulent financial reporting. In addition, industry conditions can mediate the relationship between auditors' judgments and fraudulent financial reporting. However, the current state of the industry shows no link between company size and fraudulent financial reporting. The implications of this study emphasize the importance of proper internal supervision and control by companies to prevent and overcome the risk of financial reporting fraud, as well as the importance of strict and credible auditor supervision, and more careful attention to industry conditions that affect the level of financial reporting fraud.

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1. INTRODUCTION

The manufacturing industry sector is one of the industries that is growing very rapidly from year to year. The manufacturing industry is always developing according to the demands and needs of society, this is also the reason for the manufacturing industry to become an industry of intense competition. All manufacturing companies are competing to give the impression that people will not choose similar alternative products other than the company itself. So, in order for a company in the manufacturing sector to be competitive, the company must have a strategy and characteristics that make the company more widely known to the wider community, as well as provide a good view of the company. Manufacturing companies on the Indonesia Stock Exchange have three subsectors: the basic and chemical industry sector, the other industry sector, and the consumer goods industry sector. Below are the manufacturing sub-sectors contributions to GDP growth for the period 2016-2019. Accounting fraud is done by presenting financial statements that are higher (overstated) and lower (understated) than they are. Accounting fraud is defined as a deliberate error of concealing material facts or accounting data that is misleading and may influence or alter a reader's decisions or judgments after considering the erroneous facts (Dimitrijevic et al., 2015; Edgley, 2014). A fraud related to the manipulation of financial statements occurred at PT in Indonesia. Three pillars of nutrition. PT. Tiga Pilar Sejahtera (AISA) or TPS Food is a company engaged in the manufacture of consumer goods. The case stems from the discovery that PT. Indo Beras Unggul (IBU), a subsidiary of PT. TPS Food, had been collecting subsidized farmers' rice that had been processed and repackaged into premium rice. is emitting. AISA's stock price dropped significantly as a result of the incident, prompting the company to beautify its 2017 financial statements. At the 2018 Extraordinary General Meeting of Shareholders (EGMS), shareholders submitted a survey of the 2017 financial statements and asked Ernst & Young Indonesia (EY) to conduct an audit of the 2017 financial statements. A report on the findings found that the relevant information was fraudulent, meaning that the financial records differed from those used by the auditors in their audit of the 2017 financial statements. Here are the EY findings: TPSF Group is suspected of overstating IDR 4 trillion in accounts receivable, inventory, and fixed assets, IDR 662 billion in sales of food companies, and IDR 329 billion in EBITDA. Cash flows of IDR 1.78 trillion are alleged under various schemes from the TPSF Group to parties allegedly related to the former management (“Related Parties”). Transfer of Funds to Bank Accounts and Related Party Expenses Financing by TPSF Group No disclosure of related party relationships and transactions were made appropriately to relevant partners (stakeholders). This may violate Chairman's Order No. KEP-412/BL/2009 of the Capital Markets and Financial Institutions Regulators on Related Transactions and Conflicts of Interest in.

This time, from the standpoint of auditors as well, in order to prevent fraud and scandals from prolonging, the role of accountants who detect fraud as soon as possible is required. The auditor's role as a neutral and independent party is necessary to enhance and strengthen the confidence of users of financial statement information. Auditors should be able to systematically and critically examine their duties, namely the financial statements prepared by the head of the company, along with the accounting records and supporting evidence. I can give the right opinion about the adequacy of financial statements. As the importance of audit reports to companies becomes apparent, auditors must be proficient in collecting and analyzing audit evidence (Hermawan et al., 2021; Pattiasina et al., 2021). Audit reports are prepared in the form of audit reports (Purnamawati & Adnyani, 2019). The auditor's report is a statement by the auditor regarding the accuracy of the presentation of the financial statements of the entity being audited by the auditor (Pinto et al., 2020). A report is considered adequate if it reflects the actual financial position of the company in its field and meets the standards set out in the applicable Standards for Professional Accountants (SPAP) considered. The right decision depends on the trust of the auditor. In an audit, the auditor certifies that he has obtained sufficient audit evidence to provide the basis for expressing an opinion on the audited financial statements. In addition, the auditor will certify that the financial statements are presented fairly and are free of material misstatement. One of them is due to error or fraud that gives the auditor confidence in his ability to express an opinion. In addition to audit opinions, the size of a company also contributes to companies committing fraud. Company size can also affect the incidence of financial reporting fraud. The bigger the company, the more transactions it makes, and those transactions create opportunities for fraud. Based on the conflicting results of this phenomenon and previous studies, the titles proposed in this study are the Impact of auditor judgment, company size, external pressure on fraudulent financial reporting, and industry conditions.

2. METHODS

This study uses an associative quantitative approach. Associative approaches are studies aimed at identifying effects between two or more variables. The relationships examined in this study resemble causal relationships, that is, causal relationships between variables. The study examines the impact of audit opinion, company size, and external pressures on fraudulent financial reporting, with industry state as an intervening variable. Due to the nature of the data in this study, we use secondary data derived from the financial statements of companies representing the study sample. A survey location is a location or area selected by an investigator to conduct a survey. The survey was conducted among manufacturing companies in the consumer goods sector listed on the Indonesian Stock Exchange for the period 2017-2021. The study population consisted of his 25 companies in the consumer goods industry

The sampling technique used in this study used a non-probabilistic sampling technique with directed sampling. Based on the calculation above, the survey sample size was 22 companies, with 110 observation days between 2017 and 2021. The type of data used in this study is quantitative data. Data were collected using documentation techniques. The data analysis procedure describes the steps to follow to analyze the data. The data analysis procedure consists of data analysis methods, instrument/tool testing, classical hypothesis testing, and hypothesis testing using STATA 13.

3. RESULTS AND DISCUSSIONS

Results

In this study descriptive statistics are presented to provide an overview of the minimum value, maximum value, average value (mean) and standard deviation of each variable. The results of descriptive statistics are shown in Table 1.

Table 1. descriptive statistics

Variable	obs	Mean	Std. Dev.	Min	Max
Y2	110	0.2545455	0.437599	0	1
X1	110	0.7727273	0.4209882	0	1
X2	110	3.342415	0.0595841	3.2318	3.4911
X3	110	1.478191	1.654436	-1.5997	6.3517
Y1	110	0.0487836	0.2077613	0	1.5281

The variable Y2, which is fraudulent financial reporting, has a minimum value of 0 and a maximum value of 1, with a mean value of 0.2545455 and a standard deviation value of 0.437599. The mean value of the liquidity variable is lower than the standard deviation value, indicating high data variance for the enterprise value variable. The X1 variable, or judgment, has a minimum value of 0 and a maximum value of 1, with a mean value of 0.7727273 and a standard deviation value of 0.4209882. The mean value of the appraiser's judgment variable is higher than the standard deviation value, indicating that the data have less variance. Small data discrepancies indicate that the data values are evenly distributed. The X2 variable, firm size, has a minimum value of 3.2318 and a maximum value of 3.4911, with a mean of 3.342415 and a standard deviation of 0.595841. The mean value of the firm size variable is smaller than the standard deviation value, indicating greater data variance for the firm size variable. The external pressure variable X3 has a minimum value of -0.15997 and a maximum value of 6.3517 with a mean of 1.478191 and a standard deviation of 1.654436. The mean value of the external pressure variable is higher than the standard deviation value, indicating a small variance of the data. Small data discrepancies indicate that the data values are evenly distributed. The Y1 variable, industry health, has a minimum value of 0, a maximum value of 0.5281, a mean value of 0.0487836, and a standard deviation value of 0.2077613. The mean value of the industry conditional variable is lower than the standard deviation value, indicating high data variance of the firm value variable.

Table 2. Normality Test

Variable	Obs	Pr (Skewness)	Pr (Kurtosis)	adj chi2(2)	Prob>chi2
Y2	110	0.0000	0.0290	18.23	0.0001
X1	110	0.0000	0.6163	18.05	0.0001
X2	110	0.1134	0.4349	3.19	0.0027
X3	110	0.1352	0.8714	2.31	0.0149
Y1	110	0.0000	0.0000	.	0.0000

Based on Table 2 it shows that the prob>chi2 value of each variable is less than 0.05. So it can be concluded that the data in the study are normally distributed.

Table 3. Multicollinearity Test

Variable	VIF	1/VIF
X2	1.54	0.651114
X3	1.52	0.656988
X1	1.01	0.987448
Mean VIF	**1.36**	

Based on the results of the multicollinearity test in Table 3 it can be explained that the value tolerance each independent variable is greater than 10% and all VIF values are less than 10. This means that multicollinearity does not occur in the regression model.

Table 4. t Test Result

Y2	Coef.	Std. Err.	t	P>|t	[95% Conf. Interval]	
X1	-0.1905882	0.0816299	-2.33	0.021	-0.0287312	-0.3524452
X2	-5.353007	0.72089	-7.43	0.000	-6.78239	-3.923625
X3	0.1194222	0.0254636	4.69	0.000	0.0689325	0.1699119
Y1	0.4097778	0.0685084	2.43	0.017	0.7438989	0.0756567
_cons	17.84271	2.383436	7.49	0.000	13.1168	22.56862

Based on the multiple regression analysis results for Hypotheses 1 to 3 in Table 4, the t-test results can be interpreted as follows. The first hypothesis (H1) states that audit reports adversely affect fraudulent financial reporting. The results show a small significance level from 0.05 (0.021 < 0.050), indicating negative regression coefficient values. This means that audit opinions can adversely affect fraudulent financial reporting. From the test results of this study, we can conclude that H1 is accepted. Based on the data collection results, the companies most likely to commit fraud are those that have an audit opinion and do not express an opinion, such as Tiga Pilar Sejahtera Food Tbk in 2017. The second hypothesis (H2) states that company size has a positive impact on fraudulent financial reporting. The results showed that the significance level was less than 0.05 (0.000 < 0.050) and the regression coefficient values were negative. This means that company size has a negative impact on fraudulent financial reporting. From the test results of this study, we can conclude that H2 was rejected. Based on the data collection results, the most likely fraudulent companies are those with sudden and unusual increases in assets such as: B. 2020 Indofood Sukses Makmur Tbk. A third hypothesis (H3) states that external pressures have a positive impact on fraudulent financial reporting. The results showed that the significance level was less than 0.05 (0.000 < 0.050) for positive regression coefficient values. This means that external pressure has a positive impact on fraudulent financial reporting. From the test results of this study, we can conclude that H3 is accepted. Based on the data collection results, the companies most likely to commit fraud are those with little equity from shareholders but very high levels of debt, such as Centra Food Indonesia Tbk Tbk in 2018..

Table 5. Sobel test results

Hypothesis	Results
Hypothesis 4	-5,711 > 1,96
Hypothesis 5	-1,721 < 1,96
Hypothesis 6	-0,150 < 1,96

Based on the results Table 5, we can see that the Sobel test value is greater than -1.96. Therefore, if negative Sobel test score results indicate a reduction in fraudulent financial reporting by industry conditions, industry conditions may adjust the relationship with the auditor's judgment on fraudulent financial reporting. Industrial conditions are the ideal conditions for a company in an industry. Financial statements have certain accounts, such as bad debt accounts and balance sheet accounts, for which the company determines the balance based on estimates. Based on the results in the image above, we can see that the Sobel test value is less than 1.96. Therefore, industry conditions cannot mediate the relationship between firm size and fraudulent financial reporting, thus rejecting the fifth hypothesis. Based on the results in the image above, we can see that the Sobel test value is less than 1.96. Therefore, the state of the industry cannot reconcile the relationship between external pressures and fraudulent financial reporting, rejecting Hypothesis 6.

Discussion

Audit reports have a negative impact on fraudulent financial reporting. From the test results of this study, we can conclude that H1 is accepted. When presenting financial statements, one of the most important things that affect the quality of financial reporting is the auditor's statement or opinion on the conclusions on the financial statement page explaining the circumstances and results obtained during the audit. The auditor's statement or opinion regarding the conduct and results of the audit is contained in the third paragraph of the audit report issued by the respective auditor (Gimbar et al., 2016; Habib, 2013). The auditor's report is the auditor's opinion on the fairness of presentation of the financial statements of the institution/company being audited (Hapsari et al., 2016; Mazkiyani & Handoyo, 2017). This is due to accountability pressure in company management, attempts to manipulate financial reports that are later presented to shareholders, and analysis of various financial reports in the form of audit reports. We will report to the satisfaction of our shareholders. Regarding business results, companies that receive an unqualified audit opinion appear successful in the eyes of competitors and investors

Company size has a negative impact on fraudulent financial reporting. From the test results of this study, we can conclude that H2 was rejected. The size of companies that report fraudulently, i.e. large companies, are much less likely to commit fraud (Brazel et al., 2015; Lennox et al., 2013; Omar et al., 2017). The study also explains that this can happen because large companies need to have a better reputation than smaller companies, as they disclose quality information that is used to maintain their reputation (Drempetic et al., 2020; Dyduch & Krasodomska, 2017; Werastuti, 2013). In addition, large companies are believed to have much better internal controls than smaller companies (Rahmi & Sovia, 2017; Raiborn et al., 2017). External pressure has a positive effect on financial reporting fraud. This theory states that a company needs an external source of funding, such as a bank loan, to carry on its business. The study calculates external pressure using the leverage ratio, which is the ratio of a company's total liabilities to total assets, to provide insight into a company's credit risk. If a company has a high leverage ratio, the company has a large amount of debt and a high credit risk (Blankespoor et al., 2013; Nukala & Prasada Rao, 2021). This can lead to fraudulent financial reporting, for example, by reducing the amount of debt held to obtain credit from external parties.

If negative Sobel test results indicate a reduction in fraudulent financial reporting due to industry conditions, industry conditions may mediate the relationship between auditor judgment and fraudulent financial reporting. Therefore, hypothesis 4 is supported. The nature of the industry is one of the pillars of the fraud triangle, the variable of opportunity. Inventory is an asset under management that is prone to theft and fraud because it is typically large in a company and has a significant impact on the balance sheet and income statement. In addition, inventory is a liquid account that is easy to collect. The nature of the industry gives managers the opportunity to subjectively assess and rate specific accounts (Bellavance et al., 2013; Prasmaulida, 2016). Industrial conditions are the ideal conditions for a company in an industry. Financial statements have certain accounts, such as bad debt accounts and balance sheet accounts, for which the company determines the balance based on estimates. The theory is that management (agents) record the highest possible amounts so that users of financial statements, such as investors, are interested in the company's financial reports and avoid conflicts of interest between principals and agents (Fridson & Alvarez, 2022; Garanina & Dumay, 2017; Roychowdhury et al., 2019). leads to agency conflicts, and states that the creation of agency conflicts leads to activity. performed by the agent contrary to the requirements performed by the client, leading to information asymmetry or imbalanced information. In the audit report, the company must present financial statements according to the company's reality. To ensure that the opinions given by auditors reflect the company in presenting the transactions of each period within the company (Khusnah & Jannah, 2021; Purnamawati, 2018).

The fifth hypothesis is rejected because the current state of the industry fails to reconcile the relationship between company size and fraudulent financial reporting. Implementation of this stringent oversight system is not desired by management as it minimizes the move towards fraudulent financial reporting. Industrial conditions are ideal conditions for a company in an industry. Financial statements have certain accounts, such as bad debt accounts and balance sheet accounts, for which the company determines the balance based on estimates (Galantika & Siswantaya, 2016; Lev, 2018; Saputra, 2022). Agency theory explains that there is an agent who is responsible for the work done on behalf of the principal. It is also a theory that should be included in your fraud checking plan, according to the Fraud Triangle. This theory states that in a partnership, the principal and agent have goals and expectations of the partnership. Management (agents) should ensure that users of the balance sheet, for example, B. Investors are interested in the company's annual financial statements, and conflicts of interest between clients and agents lead to conflicts of representation, and clients Emergence of expressive conflicts for the activities performed by the agent against the demands of the agent. It causes information asymmetry and imbalance. The greatness of big companies also has the goal of making big profits. If the company achieves its goals, it means that the company can make a big profit. And if the profit obtained exceeds the target, the difference with the profit obtained by the company's target will not be manipulated by the manager so that it can be distributed to the shareholders so that they can make a profit. The sixth hypothesis is rejected because industry conditions fail to broker the link between external pressure and fraudulent financial reporting. Financial pressure on management can also come from outside parties to the company. External pressure can arise when a company owes significant amounts of debt to outside parties. In the eyes of the client, a company with a large amount of debt is not good enough (Siswati, 2021). This encourages management to improperly manipulate existing debt to make the principal look good. Industry conditions are the industry sector risks that we estimate. Estimated risk common in the industry consists of two accounts: bad debt and obsolete inventory. This variable is measured at the claims proxy. The nominal amount of accounts receivable is determined by the manager himself. Therefore, if managers have the freedom to determine the value of bad debts when preparing financial reports, they are more likely to commit fraud. It is also a theory that should be included in your fraud checking plan, according to the Fraud Triangle. This contradicts that management does not falsify financial reports because it conveys the company's actual situation with respect to the company's accounts receivable and inventories. It does not affect external pressure to do so.

4. CONCLUSION

Audit reports have a negative impact on fraudulent financial reporting. This is said to be performed by company management, such as manipulating financial reports that are later presented to shareholders, along with various financial statement analyzes in the form of audit reports that are invisible to unqualified auditors. It's due to pressure. 'Report to shareholders' satisfaction. Regarding business results. Company size has a negative impact on fraudulent financial reporting. Compared to SMEs, medium and large enterprises face greater pressure from stakeholders to ensure that the company's performance meets investor expectations. This allows management to meet these expectations. External pressure has a positive effect on fraudulent financial reporting. External pressures are the pressures that management faces to meet the expectations and requirements of third parties. Agency theory explains that there are agents who are accountable for the work they do to their principals. Industry conditions can mediate the relationship between auditor judgment and fraudulent financial reporting. If a company has a high leverage ratio, the company has a large amount of debt and a high credit risk. This can lead to fraudulent financial reporting, for example, by reducing the amount of debt held to obtain credit from external parties. The current state of the industry does not convey the relationship between company size and fraudulent financial reporting. Management (agents) should ensure that users of the balance sheet, for example, B. Investors are interested in the company's annual financial statements, and conflicts of interest between clients and agents lead to conflicts of representation, and clients Emergence of expressive conflicts for the activities performed by the agent against the demands of the agent. It causes information asymmetry and imbalance. The greatness of big companies also has the goal of making big profits. If the company achieves its goals, it means that the company can make a big profit. The current state of the industry fails to reconcile the relationship between external pressure and fraudulent financial reporting. The fraud triangle is a theory that should be included in your fraud screening plan. This is in contrast to the fact that management does not manipulate financial reporting. Management communicates the actual situation of the company in relation to the company's accounts receivable and inventory so that adverse industry conditions do not influence external pressures to make false financial reports.

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