

## Pressure and Opportunity on Financial Statement Fraud with Political Connection as a Moderating Variable

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### Article info

#### Keywords:

Financial Statement Fraud,  
Fraudulent financial, and Political  
connection

ISSN (print): 2598-7763  
ISSN (online): 2598-7771

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### Abstract

This research aims to examine and analyze the influence of pressure and opportunity on financial statement fraud with political connection as a moderating variable, and is expected to assist stakeholders in decision-making. One way to detect financial statement fraud is by using the Altman Z-Score analysis, which consists of three measurement variables to generate a financial statement fraud score. The sample used in this study consists of 92 companies from a population of 147 companies in the consumer cyclical sector listed on the Indonesia Stock Exchange from 2019-2022, with a total sample of 368 companies. The type of this research is quantitative research, and the sampling technique used is purposive sampling. The analysis used is moderate regression analysis. This study shows that pressure has a significant relationship with financial statement fraud, while opportunity does not affect the potential for financial statement fraud. Political connection can effectively moderate pressure in relation to financial statement fraud, but it cannot moderate opportunity in relation to financial statement fraud.

Citation: Aslira, S., Chandrarin, G., Zuhroh, D., (2024). Effect of Environmental Responsibility on Financial Performance: Organization Slack as Moderation. *AFRE Accounting and Financial Review*, 7(3): 367-375

JEL Classification: G34, M42, C38  
DOI: <https://doi.org/10.26905/afr.v7i3.14468>

### 1. Introduction

Global economic and technological advancements have given rise to a heightened level of competitiveness among businesses. High levels of competition push businesses to manage strong management to adapt and increase their competitiveness across a range of industries. The emergence of competitiveness in many industries has resulted in criminal activities like false reporting (Hajek & Henriques, 2017; Craja et al., 2020).

According to data made public by the Association of Certified Fraud Examiners (ACFE, 2022) in the Report to the Nation on Occupational Fraud and Abuse, Australia, China, and Indonesia are the top three countries in the Asia Pacific region out of 18 other nations. The research also notes that 78 fraud cases, or 4% of all cases discovered to occur in Asia Pacific, are reported to occur in this region. Corruption was the primary cause of 57% of operational fraud in Asia Pacific, followed by billing fraud (20%), non-cash fraud (17%), and cost reimbursement (15%). Fraud has

an annual cost of more than \$5 billion. Around 80 percent of offenders conduct crimes as a result of inadequate management and internal controls in the workplace. According to Albrecht et al. (2019), openness and transparency are essential to creating a pleasant and honest work culture. This includes aspects of the hiring process as well as enrichment about the regulations that must be followed. A step toward reducing the risk of fraud is to use a periodic approach based on the circumstances at hand.

Fraudulent behavior can occur due to various factors, one of which is the pressure that can encourage someone to commit fraud. Pressure can be in the form of lifestyle demands, economics, and others. According to Tuanakotta (2013) in detecting financial statement manipulation, management or operational employees are under strong pressure to achieve financial targets made by management, including sales goals or incentive goals based on profit levels.

In addition to pressure, the existence of opportunities can also encourage fraudulent beha-

violation. Besides that opportunities arise due to weaknesses in internal control, ineffectiveness of management supervision, or abuse of position or authority. According to AICPA (2003) of the American Institute of Certified Public Accountants of the three fraud risk factors (pressure, opportunity, and rationalization), opportunity is a basic thing that can happen at any time so it requires supervision from the organizational structure starting from the top. Organizations must establish useful processes, procedures, and controls and place employees in certain positions so that they cannot commit fraud and are effective in detecting fraud. The phenomenon of dishonesty in the preparation of financial statements is still often found in large companies around the world and Indonesia in particular. The discrepancy or fraud of the information submitted with the facts also still often occurs. One of the large companies in Indonesia that has committed financial statement fraud is PT Garuda Indonesia. Tbk. By presenting financial statements not by OJK PSAK 2018 regulatory standards. Management of PT Garuda Indonesia. Tbk recognized receivables from PT Mahata Aero as revenue, thus making PT Garuda Indonesia. Tbk earned a profit of US \$ 809.85 thousand whereas the actual situation was still a loss of US \$ 244.96 million. With the increase in fraud behavior that can harm and hinder the growth of organizations, it is important to understand how fraud behavior can occur (Larum et al., 2021)

Some research findings related to factors that affect financial statement fraud show different results. Research by Alfina & Amrizal (2020); Boermawan & Arfianti (2022) show indicate that Financial Stability, External Pressure, Personal Financial Need, Financial Targets, Ineffective Monitoring, Organizational Structure and Rationalization do not affect Financial Statement Fraud. While the Nature of Industry variable has a positive effect on Financial Statement Fraud. In research by Siswantoro (2020) show that one of the three pressure factors, namely financial targets, had a positive and significant effect on financial statement fraud, while financial stability and external pressure had no positive or significant effect. In research by Andriani (2019) show the analysis showed are pressure (solvency ratio) has no significant effect on fraudulent financial statements. Meanwhile, opportunities have a positive effect on fraudulent financial statements, and rationalization (profitability ratio) hurts fraudulent financial statements. In research by Karundeng & Pesak (2023) on moderating social media trans-

parency on the effect of political connections on indications of fraud. The results showed that political connections did not affect indications of financial statement fraud.

## **2. Hypothesis Development**

### **Fraud Triangle Theory**

According to Cressey (1953); Awang et al. (2020); Maulidi (2020); Tickner & Button (2020) a trusted person may commit a breach of trust such as when the person is not open to the financial problems faced and is aware of committing a violation and taking advantage of his position at this time. This fraud triangle arises based on 3 influencing factors, namely pressure (pressure), pressure (opportunity), and rationalization (rationalization).

Pressure is a motivation that arises because of the urge to commit fraud due to demands stemming from lifestyle, family economic demands, inability to overcome financial problems such as debt, and others. Based on Statements on Auditing Standards (SAS No. 99, 2002), it is suggested that the pressure on companies to commit fraud in financial statements can occur because 4 factors can lead to fraud, namely financial stability, external pressure, financial targets, and one's financial needs. In this study using the financial target proxy. Ratnasari & Solikhah (2019) state that the company's financial targets must achieve high profits so that the company's performance is considered to have run effectively. This too-high financial target makes management experience pressure so that they commit fraud so that the target can be achieved.

Based on SAS No. 99 (2002), an opportunity or opportunity to commit fraud in financial statements occurs in ineffective supervision, organizational structure, and industrial conditions. The more opportunities that are obtained, the greater the possibility of fraudulent behavior. Financial statement fraud can occur due to opportunity. In this study using the organizational structural proxy, it is seen that the change in organizational structure must be carried out to prevent the act of manipulating financial statements.

Rationalization is what makes a person realistically commit fraud, while an important determinant in terms of the quality of financial reports is the integrity of management in a company. According to Skousen et al. (2009); Aksa et al. (2020); and Soltani et al. (2023) rationalization is fraud

which is one of the frauds that is difficult to measure.

### Financial Statement Fraud

The Association of Certified Fraud Examiners (ACFE, 2022) states that Financial Statement Fraud is a fraud in the form of financial statements with material misstatements or statements made by manipulating or changing the contents of financial statements by company officials to hide the company's true financial condition which can harm other parties. According to Cressey (1953), fraud is a deliberate act by individuals among management, parties responsible for governance, employees, or third parties, which involves the use of fraud to gain an unfair or illegal advantage. Fraud in financial statements can occur in the following ways: a). Changing accounting records from the original results, changing or replacing supporting documents in the basis for presenting financial statements. b). Deleting or misrepresenting intentionally existing transactions, events, and other important information. c). Misapplication related to classification, amount, disclosure, or method of presentation is done intentionally.

### Political Connection

Political connection is defined as a condition where a politician working in a company and/or an entrepreneur is connected to political activities. Leuz & Oberholzer-Gee 2006; Farida & Setiawan (2022) state that in developing a competitive strategy, companies must be able to seek and take advantage of opportunities in the business environment, one of which is through political connections. Politically connected companies are companies that in certain ways have political ties or seek ties with politicians or the government (Purwoto (2011); Puspitasari & Nugrahanti (2016); Wang et al. (2017); and (Mahmood et al. (2019). Political connections in companies can be measured by analyzing major shareholders, company leaders, and boards of commissioners who have a history of involvement either as members of parliament, ministers, government officials including military officers, former members of parliament, or government officials including military officers, or have relationships with politicians or political parties.

### Altman Z-Score Model Analysis

Altman Z-Score analysis is a method used in predicting company survival by combining se-

veral financial ratios by giving different weights to one another (Rudianto, 2013). Altman Z-Score uses multiple discriminant statistical analysis (MDA) techniques to produce predictive tools. The Altman method was developed by an American national researcher named Edward I. Altman in the mid-1960s, using financial ratios (Kurniawati, 2017). In predicting company bankruptcy, it is necessary to include financial ratios in the Altman model that can determine the likelihood of bankruptcy. Bankruptcy has a relationship with the occurrence of fraud, this statement is as expressed (Kartikasari & Irianto, 2010) that the Altman Z-Score model analysis can be used in detecting fraudulent corporate financial statements. This is also in line with Albrecht et al. (2019) that bankruptcy can be a cause and effect of fraud.

According to Laksmana & Darmawati (2019) the Altman model is an analytical tool that has the highest level of accuracy among other models that can be used to assess financial performance. Hanafi & Halim (2016) Explain that in 1983 and 1984, the bankruptcy prediction model was further developed by Altman for several countries, 26 STEI Indonesia from this study found a new Z value for companies that went public, and it turned out that Altman's Z-Score method had a validity rate of up to 95%, with the discriminant equation as follows:

$$Z = 1.2 * X_1 + 1.4 * X_2 + 3.3 * X_3 + 0.6 * X_4 + 1 * X_5$$

Where:  $X_1$ = Working Capital/Total Assets;  $X_2$ = Retained Earnings/Total Assets;  $X_3$ = Earnings Before Interest and Tax/Total Assets;  $X_4$ = Market Value Equity/Book Value of Total Liabilities;  $X_5$ = Sales/Total Assets.

The analysis criteria set by Altman as an indicator of bankruptcy of a company are as follows: a) Z-score > 2.99 is categorized as a very healthy company that does not experience financial difficulties. b)  $1.81 < Z\text{-score} < 2.99$  is in the gray area so it is categorized as a company that has financial difficulties, but the possibility of being saved and the possibility of bankruptcy is equally dependent on the company's management policy decisions as decision-makers. c) Z-score < 1.81 is categorized as a company whose financial condition is very difficult and has a high risk so the possibility of bankruptcy will be very large.

### Pressure for Financial Statement Fraud

Pressure is a motivation or encouragement

to commit fraud. Factors that influence pressure can be from external pressure, financial stability, financial targets to lifestyle demands related to economic needs. Financial statement fraud is an act of manipulating or changing the contents of the report by hiding the results of the company's performance to obtain personal gain. With increasing pressure, the possibility of committing fraud will also increase. Research conducted by (Larum et al., 2021) states that there is a positive influence between pressure and the value of financial statement fraud. These results are supported by Siswanto (2020) which shows that one of the three pressure factors, namely financial targets, has a positive and significant effect on financial statement fraud.

H<sub>1</sub>: Pressure has a positive effect on fraudulent financial statements.

### **Opportunities for Financial Statement Fraud**

Opportunity is a condition where fraudsters feel they have a combination of situations to commit unknown fraud. Opportunities can arise from weaknesses in internal control or from weaknesses in the organizational structure. With the change in the existing structure, the company's supervisory system is increasingly under control, so the possibility of fraudulent financial statements is also getting smaller. Research conducted by Nurhasanah et al. (2022) states that there is a negative influence between opportunities and fraudulent financial statements.

H<sub>2</sub>: Opportunities hurt fraudulent financial statements.

### **Pressure on Financial Statement Fraud with Political Connection as a Moderating Variable**

Political connection is a special relationship that companies have with the government to make things easier. In this case, political connections can make companies more disciplined in preparing financial reports, but with pressure from both internal and external, companies tend to use these connections to adjust the information asymmetry that occurs in preparing financial reports. So that the act of manipulating financial statements will be even greater. Research conducted by Hidayat (2022) states that political connections are unable to moderate the relationship between pressure on financial statement fraud.

H<sub>3</sub>: Political connection is unable to moderate the effect of pressure on fraudulent financial statements.

### **Opportunities for Financial Statement Fraud with Political Connection as a Moderating Variable**

The political connection owned by the company can make it easier to change the organizational structure to improve the company's internal control system for the better. In this case, political connections can prevent or reduce the opportunity to commit fraudulent financial statements. Research conducted by Hidayat (2022) states that political connections can weaken the effect of opportunities on fraudulent financial statements.

H<sub>4</sub>: Political connection weakens the relationship between opportunities and fraudulent financial statements.

### **3. Data and Methods**

The design carried out in this study is causality which is used to examine the influence, relationship, or impact of independent variables on the dependent variable, namely examining the effect of pressure, and opportunities on financial statement fraud in consumer cyclical companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2022 period. The operationalization of the research variables is shown in Table 1. The research population is consumer cyclical companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2022 period. Determination of the sample using probability purposive sampling, where the sample is determined by various specific criteria as follows: 1) Manufacturing companies listed on the IDX in the consumer cyclical sector for the 2019-2022 period; 2) Companies that fully publish and publish annual reports during the 2019-2022 period; 3) Companies whose financial statements use rupiah currency for the 2019-2022 period.

The dependent variable for this study is Financial Statement Fraud as measured by Altman Z-Score. Altman Z-Score testing by determining the score amount, if the value of  $Z > 2.99$  Safe Zone (Low-Risk Area (Healthy)),  $1.8 < Z < 2.99$  Gray Zone (Uncertain Result)  $Z < 1.8$  Distress Zone (High Risk of Bankrupt).

The data collection technique in this study uses the documentation method by recording data that has been published by the issuing institution, collecting and processing secondary data, namely in the form of annual reports of cyclical consumer sector companies listed on the IDX for the 2019-2022 period by downloading the official IDX website.

Hypothesis testing tested with Moderating Regression Analysis aims to determine whether the moderating variable will strengthen or weaken the relationship between the dependent variable and the dependent variable (Chandrarin, 2017). The following is a statistical model of the Moderating Regression Analysis equation:

$$KRLA = \beta_0 + \beta_1 TKN + \beta_2 PLG + \beta_3 PLCN + \beta_4 (TKN*PLCN) + \beta_5 (PLG*PLCN) + e$$

Where: KRLA= Financial Statement Fraud; TKN= Pressure; PLG= Opportunity; PLCN= Political Connection;  $\beta_0 - \beta_5$ = Slope; e= Error term.

Table. 1 Operational Definition of Variables

Variable	Operational Definition	Ratio	Scale
Financial Statement Fraud	Submission of material misstatements	Altman Z-Score	Ratio
Pressure	Pressure from financial targets	ROA (Skousen et al., 2009)	Ratio
Opportunity	Changes in the organizational structure of the board of directors and commissioners	Dummy variable, coded 1 if there is a change in directors and commissioners for the 2019-2022 period, and code 0 otherwise. (Ramantha & Badera et al., 2018).	Nominal
Political Connection	Political relations with the government	Dummy variable, coded 1 if there is a political relationship with the 2019-2022 government, and coded 0 otherwise (Faccio, 2007).	Nominal

#### 4. Results

Based on the results of the analysis of the results of descriptive statistical tests (Table 2) show the average value of pressure of -0.02, which means that the condition of the return on assets of cyclical consumer companies as measured by the comparison of the company's net profit level with the company's total assets has not been able to return the company's assets properly. The PLG variable has a value range from 0 to 1. PLG value of 1 means that the company has changed the organizational structure, especially the directors and commissioners of the company, while 0 means the opposite where the average value of the opportunity is 0.47, which means that part of the consumer cyclical companies have made structural changes to the directors and commissioners. The PLCN variable has a value range from 0 to 1. PLCN with a value of 1 means that the company has a relationship with government politics while 0 means the opposite. Where the average value of consumer cyclical companies is 0.17, which means that fewer have a political relationship with the government. Variable KRLK The average value of consumer cyclical companies is 1.55, which means that the level of potential fraud in the financial statements of consumer cyclical companies is quite high where there is financial statement fraud according to Altman Z-Score if  $Z < 1.8 \rightarrow$  Distress Zone (High Risk of Bankrupt).

Table 2. Descriptive Statistical

Variable	Min	Max	Mean	Deviation St.
TKN	-9.100	0.280	-0.020	0.480
PLG	0	1	0.470	0.500
PLCN	0	1	0.170	0.370
KRLK	-7.540	7.690	1.550	1.690

Table. 3 Moderation Regression Analysis Results

Variable	Coeff.	SE	t	p
TKN	0.652	0.400	16.310	0.000*
PLG	0.061	0.048	1.458	0.146
PLCN	-0.065	0.095	-1.059	0.290
TKN*P	0.113	0.063	2.758	0.006*
LCN				
PLG*P	-0.048	0.121	-0.749	0.454
LCN				
Sig. F	0.000*			
R <sup>2</sup>	0.481			
Adj. R <sup>2</sup>	0.474			

Note: \* sign. 0.01

Based on the results of the F test found in (table 3), it can be said that the model formulated in the moderation regression equation in this study is appropriate (fit). Table 3 also shows the Adjusted R<sup>2</sup> value of 0.474, the interpretation is that 47.4% of the dependent variable is influenced by the independent variables formulated in this research model, and the remaining 52.3% is predicted to be influenced by other independent variables that are not included in this research model.

Hypothesis testing in (table 3) for the effect of Pressure on Financial Statement Fraud, can be

concluded that the  $H_1$  is accepted, which means that Pressure affects Financial Statement Fraud. Testing the  $H_2$  for the effect of Opportunity on Financial Statement Fraud can be concluded that the  $H_2$  is rejected, which means that there is no influence between Opportunity on Financial Statement Fraud. Testing the  $H_3$  for the effect of Pressure on Financial Statement Fraud with Political Connection as a moderating variable can be concluded that the  $H_3$  is accepted, which means that Political Connection can moderate Pressure on Financial Statement Fraud. Testing the  $H_4$  for the effect of Opportunity on Financial Statement Cheating with Political Connection as a moderating variable can be concluded that the  $H_4$  is rejected, which means that Political Connection cannot moderate Opportunities on Financial Statement Cheating.

## **5. Discussion**

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

Based on the analysis results, Pressure has a positive effect on Financial Statement Fraud. The pressure variable proxied by financial targets uses the ratio of the rate of return on assets (ROA), this indicates that there is a unidirectional relationship between the rate of return on assets and the level of financial statement fraud. The higher the rate of return on company assets, the greater the possibility of management manipulating financial statements. For example, with a high rate of return on assets, the emergence of new costs that should not be needed can benefit the company. Likewise, on the contrary, if the company's ROA is smaller, the less likely management is to cheat on its financial statements. These results are in line with research conducted by Haqq & Budiwitjaksono (2019); Setiawan (2019); Putra & Kusnoegroho (2021); Larum et al. (2021); Hasna & Novianti (2021); Bartlett (2023) which states that with greater pressure, the possibility of committing fraud will also be higher.

### **The Effect of Opportunity on Financial Statement Fraud**

Based on the results of the analysis, Opportunities do not affect Financial Statement Fraud. The Opportunity variable proxied by the structural organization using a dummy variable shows that there is no relationship between structural changes in directors and commissioners and the level of financial statement fraud, which means

that opportunities are opportunities to commit fraudulent acts due to weak internal control, poor supervisory management, and the use of positions that are not optimal. This shows that structural changes in organizations by companies may only be carried out to fulfill regulations. Placement or addition of organizational structures may only be to meet formal requirements, not intended to prevent fraudulent financial statements. These results are in line with the research of Boermawan & Arfianti (2022) that opportunities do not affect financial statement fraud. The findings of this study are not in line with the findings of study Achmad et al. (2022).

### **The Effect of Pressure on Financial Statement Fraud with Political Connection as a Moderating Variable**

Based on the results of the analysis, political connections can moderate pressure significantly on financial statement fraud. This shows that the pressure requires a political relationship between the company and the government that will make it easier to complete an affair to achieve a goal that allows greater opportunities to commit fraudulent financial statements. These results are in line with research conducted by Hartanto (2023) which states that the results of the study indicate that political connection has an effect on financial statement fraud. However, this research is not in line with research conducted by Hidayat (2022) which reveals that political connections are unable to moderate financial targets and auditor switching on financial statement fraud.

### **The Effect of Opportunity on Financial Statement Fraud with Political Connection as a Moderating Variable**

Based on the analysis results, political connections cannot moderate opportunities on financial statement fraud. This shows that political connections can strengthen and weaken the relationship between opportunities and fraudulent financial statements, which means that the political relationship between the company and the government does not make it easier for companies to manipulate financial data so that it does not create opportunities to commit fraudulent financial statements. These results are in line with the research of Karundeng & Pesak (2023) that political connections do not affect indications of financial statement fraud. However, this research is not in line with research conducted by Hartanto (2023)

which reveals that political connection has a positive effect on financial statement fraud.

## 6. Conclusions and suggestions

### Conclusion

Based on the results of the analysis, it can be concluded that the elements of the fraud triangle include pressure measured by financial targets (ROA) proven to have an influence on financial statement fraud, opportunities are not proven to have an influence on the company's financial statements. Political connections can moderate pressure on financial statement fraud, but political connections are unable to moderate the opportunity for financial statement fraud. The contribution of this study is that political connections can encourage management to commit financial statement fraud.

### Suggestion

The limitation of this study is the use of the Altman Z-Score method ratio as a bankruptcy detector to assess the existence of financial statement fraud, where not all companies experience bankruptcy. The object of the study is cyclical consumer companies for the period 2019-2022, so the research sample is limited. For further research, larger and more varied objects can be selected. The use of variables in this study is still limited in measuring the potential for financial statement fraud. Further researchers are advised that financial targeting can be measured using other ratios so that there is novelty in the research that can develop the research results.

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