DETECTION FRAUDULENT FINANCIAL STATEMENT: BENEISH M-SCORE MODEL

SONI AGUS IRWANDI[1]
[1]Student of Doctorate Program, Diponegoro University
Accounting Study Program, STIE. Perbanas Surabaya
INDONESIA
soni_irwandi@perbanas.ac.id

IMAM GHOZALI[2], FAISAL[3]
[23]Department Management Faculty Economics and Business
Diponegoro University
Prof. Sudarto Street Campus Tembalang Semarang
INDONESIA

[4]IMANG DAPIT PAMUNGKAS
[4]Department Accounting Faculty Economics and Business
Dian Nuswantoro University
Imam Bonjol Street, Semarang
INDONESIA
imangdapit.pamungkas@dsn.dinus.ac.id

Abstract: - This study aims to analysis financial stability, nature of industry, audit opinion on fraudulent financial statement. Furthermore, to analysis financial stability, the nature of industry, audit opinion on real earnings management, to analysis the real earning management on fraudulent financial statement. Next, to analysis financial stability, nature of industry, audit opinion on fraudulent financial statement with real earning management as a mediating variable. The population in this study were all manufacturing companies listed on the Indonesia Stock Exchange during the period 2013-2017. The sampling technique was carried out by purposive sampling to produce 130 samples. In this study the technical analysis model uses path analysis and SPSS version 22. The results of this research are financial stability and nature of industry has a significant effect on fraudulent financial statement. Audit opinion has not effect on fraudulent financial statement. Financial stability and Nature of industry has a significant effect on real earnings management. Audit opinion has not effect on Real Earnings Management. real earning management significantly influences fraudulent financial statement. Real earnings management can mediate on the relationship of financial stability, nature of industry on fraudulent financial statement. But, audit opinion cannot mediate on the relationship on fraudulent financial statement.

Key-Words: - Fraudulent Financial Statement, Real Earning Management

1 Introduction

Accrual earning is considered to be a better measure than cash flow from the company operating activities because the accrual method considers the time problem. The existence of a conflict of interest between the owner and the manager in the company always results in the information submitted is not in accordance with the actual conditions of the company. According to Beneish (1999), if viewed from the perspective of agency theory, the low disclosure of information in financial reporting arises as a result of agency problems, namely the lack of alignment of interests between owners and management. According to Kothari (2009), information asymmetry between managers and shareholders provides managers with the flexibility to choose accounting methods and estimates used in reporting company profits so as to provide opportunities for management to make earnings management. E. Lokanan (2014), stating that detection of fraudulent financial statement does not always get a bright spot because of the various motivations that underlie it and the many methods for conducting fraudulent financial statement. The occurrence of fraud that cannot be detected can have a detrimental and flawed effect on the financial statement process.

The consequence is that detection of fraud is an important issue. The ability to identify fraud quickly becomes a necessity. However, the detection of fraudulent financial statement does not always get a bright spot because of the various motivations that underlie it and the many methods to assess the fraud. According to Cressey (1953) states that fraudulent financial statement is caused by three conditions, namely pressure, opportunity, and rationalization which is often called a fraud triangle. Earnings management carried out by the company is in the form of an increase in profits both through accrual policies and through real activities (Cohen et al.,2008). Discretionary accruals do not have an influence on cash flows directly (Roychowdhury, 2006).

In addition, this manipulation can be detected by auditors, investors or government agencies so that it can have an impact on stock prices, even causing bankruptcy or legal cases. Therefore, there are other ways that managers often manage to manage earning by manipulating real activities, where this manipulation can be done throughout the period. Based on the description above, this research is intended to detect fraudulent financial statement with reference to research conducted by Skousen et al.,(2009). Research by Skousen et al.,(2009) succeeded in developing a prediction model of fraud which experienced a substantial increase compared to other fraud prediction models. Real earnings management is used as a mediating variable. The purpose of this study was to analyze the effect of financial stability, nature of industry, and audit opinion on fraudulent financial statement through real earnings management. To analyze the effect of financial stability, nature of industry and audit opinion on real earnings management. To analyze the effect of financial stability, nature of industry, audit opinion of fraudulent financial statements with real earnings management as a mediating variables.

2 Problem Formulation

Financial stability is a condition about the economic mechanism of companies in pricing, fund allocation and risk management functioning properly and supporting economic growth (Skousen et al., 2009). According to Skousen et al., (2009) a proxy for measuring financial stability variables is the ratio of changes in total assets. According to SAS No. 99 (AICPA, 2002), managers face pressure to conduct fraudulent financial statement when financial stability is threatened by the state of the economy, industry and the situation of the entity in operation. Management often gets pressure to show that the company has been able to manage assets well so that the profits generated are also numerous and will later generate high returns for investors. With this reason, management utilizes financial statements as a tool to cover up conditions of poor financial stability by conducting fraudulent financial statement. Skousen et al.,2009 research shows that Proxies for financial stability variables that measure changes in the percentage of total assets (ACHANGE) have a significant effect on fraudulent financial reporting. Anestiyo's research results (2017) show that financial stability by proxying changes in percentage in total assets (ACHANGE) has a significant effect on fraudulent financial reporting in manufacturing companies listed on the Indonesian stock exchange. Based on these various arguments, it is concluded:

H1: Financial Stability Affects the Fraudulent Financial Statement

Nature of industry is the ratio of changes in receivables that occur in a company. Nature of industry relates to the emergence of risks for companies engaged in industry that involve significantly greater estimates and considerations. Nature of Industry is an ideal state of a company in industry. In the financial statements there are certain accounts whose balance is determined by the company based on an estimate, such as uncollectible accounts and obsolete inventory accounts. Summers & Sweeney (1998) explain that accounts receivable and inventory require subjective valuation in estimating uncollectible accounts. Managers can manipulate financial statements by playing accounts receivable and inventory accounts. According Skousen et al.,(2009) shows that Nature of industry proxy by the ratio of changes in accounts receivable (RECEIVABLE) has a significant effect on the actions of fraudulent financial statement. Anestyo (2017) shows that Nature of industry which is proxy by the ratio of changes in accounts receivable (RECEIVABLE) has a significant effect on fraudulent financial reporting on manufacturing companies listed on the IDX.

H2: Nature of Industry Affects the Fraudulent Financial Statement

Rationalization causes fraud perpetrators to justify their actions. Rationalization is part of the most difficult to measure fraud triangle. According to SAS No.99 rationalization in the company can be measured by the cycle of auditor turnover, audit opinion obtained by the company and the state of total accruals divided by total assets. In this study rationalization was measured using the audit opinion obtained by the company. The results of Aloysia,

(2003) show that auditing decreases positive bias on net earnings pre-audit and net assets and improve measurement precision. This shows that, ceteris paribus, if auditing is not carried out, the company financial statements tend to show more profit and assets materially. According to Skousen et al.,(2009) concluded that excessive use of discretionary accruals can lead to quality audit opinions being affected. According to Koroy (2008) the detection of fraudulent financial statement on audit of financial reporting by auditors needs to be based on an understanding of the nature, frequency and detection capabilities of the auditor. Problems arise because the auditor limitations in the implementation of fraud detection are challenges that need to be addressed. Problems that occur in the audit work environment if not handled properly will adversely affect audit quality. The existence of competitive pressures, time pressure and the pressure of relationships with clients can also have an impact on the success of detecting fraud. The statement shows that the Auditor Opinion affects the actions of financial statements fraud. Based on the explanation above, it can be concluded that**.**

H3: Audit Opinion Affects the Fraudulent Financial Statement

Referring to the fraud committed by Enron, where the company did not consolidate its financial statements, this indicated that management was taking earnings management actions to keep Enron's shares still being hunted by investors because it represented a large visible profit from the actual conditions. Real earnings management is a deviation from the company normal operating activities that are motivated by management desire to give wrong perceptions to stakeholders regarding the company performance (Roychowdhury, 2006). The real earnings management action is carried out in three ways, namely sales manipulation, Reduction of discretionary expenditures and over production (Roychowdhury, 2006). This action indeed shows the company short-term performance that is good in this period, but will affect the value of the company in the future. With the reason to produce high returns for investors, management utilizes financial statements as a tool to cover the condition of poor financial stability by increasing profits by making sales manipulation. From the explanation above, it can be concluded that financial stability can have a significant influence on earnings management.

H4: Financial Stability Affects the Real Earnings Management

Nature of industry relates to the emergence of risks for companies engaged in industry that involve significantly greater estimates and considerations. An example of a risk factor is an assessment of the method of debt relief which contains a greater risk of misstatement for the company because of the many methods that can be used. The risk of misstatement of these receivables increases if the amount of accounts receivable is large and spread. The higher the sales, the higher the receivables that are generated will increase the risk of misstatement of the accounts owned by the company. From the above explanation it can be concluded that Nature of industry influences Real Earnings Management.

H5: Nature of Industry Influences Real Earnings Management

Rationalization causes fraud perpetrators to justify their actions. Rationalization is part of the most difficult to measure fraud triangle. Skousen et al.,(2009) uses Opinion Audit as one of the proxies for Rationalization. The auditor opinion is part of the audit opinion which is the main information of the audit opinion. The insurance function means that qualified auditors can guarantee investors and prospective investors about the conditions and prospects of the company so they want to take the decision to invest. Organizational control function provides confidence that auditors as independent parties are able to bridge the interests of the owner and management. According Aloysia, (2003) effectiveness of auditing and ability to prevent earnings management are expected to be able to vary with auditor quality. In comparison with low-quality auditors, high-quality auditors have the ability to detect accounting practices in question, and when they are detected the auditor will issue opinions other than fair opinions without an unqualified opinion in their audit reports. Therefore, high-quality auditing acts as a deterrent to effective earnings management, because management's reputation will be destroyed and the value of the company will go down if misreporting is detected and revealed. Evidence from several studies reviewed above shows that rationalization proxy by audit opinion relates to earnings management.

H6: Audit Opinion has an effect on Real Earnings Management

Earning management reflects management unethical behaviour to deceive others by using information in financial statements. According to the National Association of Certified Fraud Examination (2018) states that Earning management is an intentional mistake or omission in making a report on material facts or accounting data so that it is misleading when all information is used to make judgments that will ultimately cause the person reading it will change or change its opinion or decision. According Aryani, (2011) earnings management is interference in the process of preparing external financial reporting, with the aim of obtaining personal benefits. Rezaee & Riley, (2010: 8), states that a fraudulent financial statement is often preceded by misstatement or earnings management from quarterly financial statements that are deemed immaterial but ultimately grow to massive fraud and generate misleading annual financial statements. material. From the above statement it can be concluded that earnings management actions can be fraudulent financial statements.

H7: Real Earning Management Affects Fraudulent Financial Statement

Skousen et al.,(2009) that the financial stability variables are defined as the ratio of changes in total assets. According to SAS No. 99 (AICPA, 2002), managers face pressure to conduct fraudulent financial statement when financial stability is threatened by the state of the economy, industry, and the situation of the operating entity. Management often gets pressure to show that the company has been able to manage assets well so that the profits generated are also numerous and will later generate high returns for investors. With this reason, management utilizes financial statements as a tool to cover up conditions of poor financial stability by conducting fraudulent financial statement. Research Skousen et al.,2009. Earnings management can be done with real earnings management that targets the time of business transactions and the cash flow component of income. Previous research has shown evidence that companies are changing real activities, such as price discounts to increase temporary sales, overproduction to report lower costs of goods sold, and reduced discretionary expenses to increase reported profits (Roychowdhury (2006). Evidence that companies make choices between the two earnings management strategies, with sales manipulation managers can increase temporary sales to stabilize the company finances in the current period, but affect future performance, resulting in unclear information that will ultimately be misleading in the decision making process. This will be a material misleading fraudulent financial statement. In fact, most of these decisions are fully accepted by accounting standards. Marai & Pavlović (2014) shows that companies may prefer this technique because accrual-based earnings management is limited by supervision from outside parties, also there is no accounting flexibility available.

H8: Financial Stability has a significant effect on Fraudulent Financial Statement through Real Earning Management

Nature of industry is the ratio of changes in receivables that occur in a company. Nature of industry relates to the emergence of risks for companies engaged in industry that involve significantly greater estimates and considerations. Nature of Industry is an ideal state of a company in industry. Accounts receivable and inventory require subjective valuation in estimating uncollectible accounts (Summers & Sweeney, 1998). Earnings management can be done with real earnings management that targets the time of business transactions and the cash flow component of income. Previous research has shown evidence that companies are changing real activities, such as price discounts to increase temporary sales, overproduction to report lower costs of goods sold, and reduced discretionary expenses to increase reported profits (Roychowdhury, 2006). This can lead to unclear information because the resulting profit does not describe the real state of the company finances which will ultimately be misleading in the decision making process. If allowed to develop, this will be a material misleading fraudulent financial statement. In fact, most of these decisions are fully accepted by accounting standards. Marai & Pavlović (2014) shows that companies may prefer this technique because accrual-based earnings management is limited by supervision from outside parties, also there is no accounting flexibility available. According to research conducted by Summers & Sweeney (1998), it is shown that Nature of industry proxy by the ratio of changes in receivable has a significant effect on the actions of fraudulent financial statement.

H9: Nature of industry has a significant effect on Fraudulent Financial Statement through Real Earnings Management

Rationalization causes fraud perpetrators to justify their actions. Rationalization is part of the most difficult to measure fraud triangle. According to SAS No.99 rationalization in the company can be measured by the cycle of auditor turnover, audit opinion obtained by the company and the state of total accruals divided by total assets. In this study rationalization was measured using the audit opinion obtained by the company. The results Spathis (2003) research show that auditing decreases positive bias in net earnings pre-audit and net assets and also increases measurement precision. This shows that, ceteris paribus, if auditing is not carried out, the company's financial statements tend to show more profit and assets materially. According to Koroy (2008) the detection of fraudulent financial statement in the audit of financial statements by auditors needs to be based on an understanding of the nature, frequency and detection capabilities of the auditor.

Earnings management can be done with real earnings management that targets the time of business transactions and the cash flow component of income. Previous research has shown evidence that companies are changing real activities, such as price discounts to increase temporary sales, overproduction to report lower costs of goods sold, and reduced discretionary expenses to increase reported profits (Roychowdhury, 2006). The higher the quality of the audit, the more expensive the costs incurred for the audit so that profits will decrease. To increase profits, managers will conduct sales manipulation to cover the audit costs of financial statements that ensure the company net profit is maintained. This can lead to unclear information because the resulting profit does not describe the real state of the company finances which will ultimately be misleading in the decision making process. Marai & Pavlović (2014) shows that companies may prefer this technique because accrual-based earnings management is limited by supervision from outside parties, also there is no accounting flexibility available. The statement shows that the Auditor Opinion affects the actions of financial statements fraud.

H10: Audit Opinion has an effect on the Financial Statement of Fraud through Real Earning Management.

3 Problem Solution

The population in this study were all manufacturing companies listed on the Indonesia Stock Exchange during the period 2013-2017. The sampling technique was carried out by purposive sampling with the aim of getting a representative sample in accordance with the specified criteria. The criteria used to choose a sample are as follows:

Table 1. Selection of Research Samples

No.	Information	Total
1.	Manufacturing companies on the Indonesia Stock Exchange during the period 2013-2017.	143
2.	The number of companies whose data is incomplete during the period 2013-2017.	(76)
3.	Companies that do not record profit after tax (EAT) in a row during the period 2013-2017.	(56)
4.	The company publishes financial statements not using the rupiah (Rp) during the 2013-2017 period.	(9)
5.	Non-indicated companies manipulate (fraud) at least 1 time in the year 2013-2017 observations	(3)
6.	Total sample	26
7.	Year of observation 2013-2017 (5 years)	5
	Number of samples during the year of observation	**130**

Source: Secondary data processing, 2019

3.1. Operationalization Variable

3.1.1 Fraudulent Financial Statement

According to Rezaee & Riley, (2010: 8), states that a fraudulent financial statement is often preceded by misstatement or earnings management from quarterly financial statements that are deemed immaterial but ultimately grow to massive fraud and produce misleading annual financial reports materially. Therefore, Beneish (2012) has developed a model to classify companies into two, namely those who commit fraud and do not commit fraud.

M-Score is a mathematical model that uses eight financial ratios to identify whether a company has manipulated its financial statements. In this study M-Score is used to detect fraudulent financial statement. The company is said to do Financial Statement Fraud if M Score> -2.22 (positive value or less negative value than this), if M Score <-2.22 (a higher negative value than this) the company does not do fraudulent financial statement. The Beneish model is based on eight factor variables from the model that provide model scores such as:

$$M - Score = -4.840 + (0.920 \times DSRI) + (0.528 \times GMI) + (0.404 \times AQI) + (0.892 \times SGI) + (0.115 \times DEPI) - (0.172 \times SGAI) - (0.327 \times LVGI) + (4,697 \times TATA). \quad (1)$$

The following is presented in the fraudulent financial statement (FRAUD) calculation of manufacturing companies listed on the Indonesia Stock Exchange during 2013 - 2017 can be seen in the following Table 3.

3.1.2 Pressure (Financial Stability)

Financial stability is the financial situation experienced by the company for management to meet the requirements or expectations of outsiders. Assessment of the stability of the company's financial condition can be seen from the condition of its assets. In cases where companies experience growth that is below the average, management will manipulate financial statements to improve the company's prospects. Likewise after the company experienced rapid growth, management will manipulate its financial statements to make it look stable (Skousen et al.,2009). In this case financial stability pressure is proxy by ACHANGE which is the ratio of asset changes for two years. ACHANGE is calculated by the formula:

ACHANGE = (Total Assets t - Total Assets t-1) / Total Assets t (2)

3.1.3 Opportunity (Nature of Industry)

Opportunity Is an ideal state of a company in the industry. In the financial statements there are certain accounts which the amount of the balance determined by the company based on an estimated balance in a particular account is based largely on subjective estimates and judgments. According to Skousen et al., (2009) estimates of records of uncollectible accounts and obsolete inventories are determined in a subjective manner. They suggest that management can focus on the account when involved in manipulating financial statements. Consistent with this, Skousen et al.,(2009), observed that a number of frauds in their samples involved receivables and inventories. In this case the Nature of Industry is proxy by REV. Receivable ratio is measured by:

REV = (Receivables t / Sales t) - (Receivables t-1 / Sales t-1) (3)

Audit opinion is given by the auditor through several stages of audit so that the auditor can provide conclusions on the opinions that must be given on the financial statements being audited. Audit opinions on financial statements are made in the context of general purpose work. Non-modified audit opinion is given by the auditor if there is no material misstatement in the company's financial statements, if there is a material misstatement, the auditor will provide a modified opinion. Furthermore, the company that gets an unqualified opinion is given a score of 1 and who gets an audit opinion other than an unqualified opi nion is given a score of 0.

3.1.4 Rationalization (Audit Opinion)

Audit opinion is given by the auditor through several audit stages so that the auditor can provide conclusions on the opinions that must be given on the financial statements audited. Audit opinions on financial statements are made in the general purpose of the field work. According to the International Standards of Audit Tuanakotta, (2014) there are types of Opinions namely: Non-modified opinion (Unqualified opinion, Unqualified opinion with an unqualified opinion with explanatory language, Unqualified opinions with an unqualified opinion with other matter. Opinion modification (Fair opinion with a qualified opinion, An adverse opinion, Not giving a disclaimer of opinion).

The non-modification audit opinion is given by the auditor if the company's financial statements have no material misstatement, if the company's report has a material misstatement, the auditor will provide a modified opinion. Furthermore, the company that receives a unqualified opinion is given a score of 1 and those who get an audit opinion other than an unqualified opinion are given a score of 0.

3.1.5 Mediating Variables (Real Earning Management)

Mediating variables are variables that theoretically influence the relationship between independent and dependent variables can also mean that this variable can weaken and strengthen the relationship between variables, but cannot be measured and observed. Mediating variables in this study use earnings management. Wiyadi et al., (2015) considers earnings management as an act that is misleading and deceives shareholders because, managements has information asymmetry about the condition of the company. Earnings management that will be used in this research is real earnings management. In this study earnings management is proxy by real earnings management where the process of manipulating real activities through operating cash flow is done by manipulating sales. Manipulation of sales by sales management is related to managers who try to increase sales during the accounting period with the aim of increasing profits to meet profit targets. Increased sales volumes caused high current year profits but cash flow decreased due to small cash inflows due to credit sales and discounted prices. Referring to research conducted by Rowchowdhury (2006), the regression model for sales management (CFO) is as follows:

CFOit / Ait-1 = α0 + α1 (1 / Ait-1) + β1 (Sit / Ait-1) + β2 (itSit / Ait-1) + εit. (4)

Information:

CFOit = Cash flow operating activities of company i in year t
Ait-1 = Total assets of company i in period to t-1
Sit = Sales of company i in year t
ItSit = Change in sales of company i in year t
α0 = Constants
εit = error term in year t

Therefore in this study that will be used is the abnormal cash flow of operating activities and the lower the value of abnormal operating cash flow, the higher the reported profit, so that the equation model for observing abnormal cash flow from operations (AB_CFO) is as follows:

AB_CFO = CFOit - CFOit / Ait-1 (5)

Information:

CFOit = Actual cash flow from operations values scaled to total assets one year before testing (Ait-1).

CFOit/Ait-1 = Normal cash flow from operations.

Table 2. Operations Beneish Model

No.	Proxy	Information
1.	Days Sales Receivable Index (DSRI)	(Net Receivables t / Sales t) / Net Receivables t-1 / Sales t-1) Gross Margin Index (GMI)
2.	Gross Margin Index (GMI)	[(Sales t-1 – Cost Of Goods Sold t-1) / Sales t-1] / [(Sales t – Cost Of Goods Sold t) / Sales t]
3.	Asset Quality Index (AQI)	[1 - (Current Assets t + Plant, Property & Equipment t) / Total Assets t] / [1 - ((Current Assets t-1 + Plant, Property & Equipment t-1) / Total Assets t-1)]
4.	Sales Growth Index (SGI)	SGI= Sales t / Salest-1
5.	Depreciation Index (DEPI)	[Depreciation t-1/ (Plant, Property & Equipment t-1 + Depreciation t-1)] / [Depreciation t / (Plant, Property & Equipment t + Depreciation t)] PPE (Plant, Property, Equipment) = Aktiva Tetap
6.	SG&A Expense Index (SGAI)	(Selling General & Administrative Expense t / Sales t) / (Selling General & Administrative Expense t-1 / Sales t-1)
7.	Leverage index (LVGI)	[(Current Liabilities t + Total Long Term Debt t) / Total Assets t] / [(Current Liabilities t-1 + Total Long Term Debt t-1) / Total Assets t-1]
8.	Total Accruals to Total Assets (TATA)	(Income from Continuing Operations t - Cash Flows from Operations t) / Total Assets t

Source : Secondary data are processed (2019)

Table 3. Fraudulent Financial Statement (M-Score)

Entity Code	2013	2014	2015	2016	2017
ADES	-2,59	-2,16	-2,74	-2,12	-2,52
CEKA	-2,82	-0,67	-2,16	-2,81	-1,89
DLTA	-2,37	-1,29	-1,04	-2,54	-1,73
DVLA	-1,88	-2,31	-2,60	-1,89	-2,32
GGRM	-1,62	-1,69	-2,16	-1,98	-1,95
HMSP	-0,58	-1,91	-2,29	2,16	-2,19
ICBP	-2,57	-2,26	-2,57	-2,28	-2,31
INDF	-2,50	-2,22	-2,82	-2,17	-2,36
KAEF	-2,25	-2,24	-2,46	-2,11	-2,04
KLBF	-1,79	-1,66	-2,23	-2,35	-2,06
MERK	-2,53	-1,02	-2,95	-2,13	-1,44
MLBI	-0,72	-0,29	-2,02	-3,39	-2,10
PYFA	-2,02	-2,22	-1,94	-2,82	-2,12
ROTI	-2,33	-2,45	-2,54	-2,72	-1,86
UNVR	-1,78	-1,94	-2,10	-1,69	-1,88
AISA	-1,72	-1,52	-1,80	-1,99	-2,07
TCID	-2,62	-2,73	-2,28	-1,62	-2,80
INAF	-0,80	-1,89	-3,03	-2,68	-1,18
KICI	-2,25	-2,43	-2,20	-2,35	-1,65
LMPI	-2,29	-2,31	-2,34	-2,62	-2,51
PSDN	-2,03	-2,67	-2,20	-3,08	-2,38
RMBA	-2,52	-2,09	-0,89	-1,83	-0,80
SKLT	-2,52	-2,23	-2,38	-2,39	-1,95
STTP	-1,74	-1,95	-2,41	-2,31	-2,25
TSPC	-2,21	-2,18	-2,27	-2,49	-2,29
ULTJ	-2,45	-1,82	-1,83	-2,46	-2,32

Source : Secondary data are processed (2019

Based on the calculation results in Table 4, it appears from 26 sample companies using purposive sampling method where 26 companies were multiplied by the observation year period (5 years), so the sample in this study became 130, therefore the observation data used was 130. The mean is the value used to find out the average data in question. The minimum is used to find out the smallest amount of data in question. The maximum is used to find out the largest amount of data in question. In table 4, it shows descriptive statistics for the independent variables and the dependent variable. Based on the results of the analysis using descriptive statistics on the financial stability variable (ACHENGE), the minimum value is -0.134, the maximum value is 0.566 with an average of 0.117 and the standard deviation of 0.1077. The nature of industry variable (REV) shows a minimum value of -0.889, a maximum value of 0.148 with an average of 0.0024 and a standard deviation of 0.0317. In the variable audit opinion shows a minimum value of 0, a maximum value of 1 with an average of 0.592 and a standard deviation of 0.4934. Variable sales manipulation (ACFO) shows a minimum value of -0.785, a maximum value of 0.639 with an average of -0.1299 and a standard deviation of 0.1008. Variable fraudulent financial statement (FRAUD) shows a minimum value of -3.3927, the maximum value is -0.2887 with an average of -2.1340 and a standard deviation of 0.51388.

Table 4. Descriptive Statistics Test Results

Variable	N	Minimum	Maximum	Mean	Std.Deviation
ACHENGE	130	-,1340	,5664	,111717	,1077083
REV	130	-,0892	,1482	,002468	,0317960
Audit Opinion	130	,0000	1,0000	,592000	,4934408
ACFO	130	-,0785	,6386	,129955	,1008338
Fraud	130	,0000	1,0000	-2,134088	,5138806
Valid N (listwise)	130				

Souce : Secondary data are processed (2019)

Table 5. Hypothesis Test Result

Path	Direct Effect Coefficient	p-value	Result
Financial Stability → Fraudulent Financial Statement	-1.336	0,047 **	**H1 Accepted**
Nature of Industry → Fraudulent Financial Statement	-1.688	0,004***	**H2 Accepted**
Audit Opinion → Fraudulent Financial Statement	13.762	0,262**	**H3 Rejected**
Financial Stability → Real Earning Management	-1.360	0,012*	**H4 Accepted**
Nature of Industry → Real Earning Management	-1.636	0,027**	**H5 Accepted**
Audit Opnion → Real Earning Management	1.688	0,046***	**H6 Accepted**
Real Earning Management → Fraudulent Financial Statement	1.762	0,037**	**H7 Accepted**
Financial Stability → Real Earning Management → Fraudulent Financial Statement	-11.360	0,020*	**H8 Accepted**
Nature of Industry → Real Earning Management → Fraudulent Financial Statement	-13.762	0,034**	**H9 Accepted**
Audit Opinion → Real Earning Management → Fraudulent Financial Statement	11.360	0,126*	**H10 Rejected**

Source: Secondary data are processed (2019)

4. Result and Discussion

Table 5. the significance level of financial stability of 0.047 because the significance level is less than 0.05 (α = 5%), the financial stability variable significantly influence the fraudulent financial statement, so the Hypothesis (H1) is accepted. According to SAS No. 99 (AICPA, 2002), managers face pressure to carry out fraudulent financial statements when financial stability is threatened by the state of the economy, industry, and the situation of the operating entity. Managers do not necessarily manipulate financial statements to improve company prospects when financial conditions are unstable or experience a decline because this will only aggravate financial conditions in the future. Changes in assets that are so large will get the attention of the public, government, investors, and creditors to get a high return. The results of this study are in line with the research of Anestyo (2017) which states that financial stability has a significant effect on fraudulent financial statement. The results of this study are not in line with the research conducted by Ulfah et al.,(2017) and Lou and Wang (2009) who stated that financial stability does not

significantly influence fraudulent financial statement.

Based on the significance level of the nature of industry of 0.004 because the significance level is less than 0.05 (α= 5%), the variable nature of industry has a significant effect on fraudulent financial statement, so the Hypothesis (H2) is accepted. Summers & Sweeney (1998) noted that accounts receivable and inventory require subjective judgments in estimating uncollectible accounts. Managers will focus on both accounts if they intend to manipulate financial statements. With subjective judgments in determining the value of the account, management can use the account as a tool to carry out financial statements of fraud, especially those accounts that are in the liquid assets area that can easily be moved. The results of this study support research According to the research conducted by Skousen et al., (2009), it is shown that Nature of industry which is proxied by the ratio of changes in trade receivables (RECEIVABLE) has a significant effect on fraudulent financial statement.

Based on Table 5. the significance level of audit opinion of 0.262 because the significance level is greater than 0.05 (α = 5%), the audit opinion variable does not significantly influence the financial statement of fraud, so the Hypothesis (H3) is rejected. The results of this study are in line with the research of Skousen et al.,(2009) which shows that the Auditor Opinion does not affect the financial statement of fraud. The results of this study also support the study of Anestyo (2017) which states that rationalization proxy by audit opinion does not affect fraudulent financial statement.

Based on the significance level of Financial stability of 0.012 because the significance level is less than 0.05 (α= 5%), the financial stability variable does not significantly influence real earnings management, so the Hypothesis (H4) is accepted. Changes in the percentage of high total assets do not indicate the existence of earnings manipulation in the company where manager interference in this case is not done because the stability of the financial condition of the company is not threatened, thereby reducing management interest in manipulating sales to increase profits by giving large discounts to consumers. Managers will not necessarily increase sales to increase company profits when financial conditions are stable because it will only aggravate financial conditions in the future because the type of sales manipulation that uses management policies about the selling price of products by giving discounts and / or price cuts can actually making the balance of the company's current assets decrease.

The significance level of the nature of industry of 0.027 because the significance level is less than 0.05 (α = 5%), the variable nature of industry does significantly influence real earnings management. So, hypothesis (H5) is accepted. Summers & Sweeney (1998) noted that accounts receivable and inventory require subjective judgments in estimating uncollectible accounts. In this study the effect of nature of industry on earnings management has significant effect. This shows that managerial policy avoids sales manipulation because it can affect the accounts receivable and inventory owned by the company, sales manipulation actions require subjective valuation in estimating the amount of sales targets that can make opportunities in doing real earnings management, but management will be very careful because decreased accounts receivable and inventory accounts will receive special attention from the auditor.

Pressure on management to make earnings management by using accounts that require subjective judgment is not too large because companies that are sampled are companies that have successive after-tax profits so that managers do not need to manipulate sales because there will be a large increase in accounts receivable will disrupt the cash flow in the future. From the explanation above, it can be concluded that Nature of industry has a significant influence on real earnings management.

Based on Table 5. the significance level of audit opinion of 0.046 because the significance level is less than 0.05 (α = 5%), the audit opinion variable has a significant effect on real earnings management, so Hypothesis (H6) is accepted. Regression coefficient - 0.036 is negative which means that rationalization proxy by audit opinion can reduce real earnings management, which is proxy by sales manipulation. An audit opinion will actually reduce real earnings management because management is concerned about the auditor's professional wisdom when aggressive actions in increasing profits will reduce inventory balances and accounts receivable which will make the audit opinion a modification. Real earnings management has a good impact only in the short term, especially for managers who can lose their reputation because of the company's poor performance if they do not take opportunistic actions. The results of this study are in line with Ratmono (2010) which shows that the auditor opinion influences the actions of real earnings management. The results of this study also support the research of Graham et al.,(2005) that managers are more likely to choose to manipulate earnings through real activities rather than accrual arrangements.

Based on Table 5. the level of Real Earnings Management significance is 0.037 because the significance level is less than 0.05 (α = 5%), the real earnings management variable significantly influences fraudulent financial statements, so the Hypothesis (H7) is accepted. This research is in line with the statement of Marai & Pavlović (2014) suggesting that companies may prefer this technique because accrual-based earnings management is limited by external oversight, nor is there accounting flexibility available. This research is in line with the statement of Rezaee & Riley, (2010: 8), stating that a fraudulent financial statement often begins with misstatement or earnings management from quarterly financial statements that are considered immaterial but eventually grow into massive fraud and produce annual financial reports materially misleading.

Based on the results of path analysis shows that the level of real earning management as a mediating variable on the relationship of financial stability to fraudulent financial statement significance is 0.020 because the significance level is less than 0.05 (α = 5%). So the hypothesis (H8) is accepted. Financial conditions are not threatened will reduce the pressure given to management to show that the company has been able to manage assets well so that the profits generated also a lot and will later generate high returns for investors. The low pressure given to management has caused management not to act in an opportunity to conduct fraudulent financial statement through Real Earnings Management which is proxied by sales manipulation. This shows that the condition of financial stability is not threatened so that company management does not get excessive pressure to be able to manage assets well in the short term so that opportunities in fraudulent financial statement through Real Earnings Management are proxy by sales manipulation. With a lack of pressure in managing management assets, it is not acceptable to carry out real earnings management using sales manipulations which would reduce inventory balances and affect the overall decrease in company assets. The results of this study are in line with the research conducted by Ulfah et al.,(2017) and Lou and Wang (2009) who stated that financial stability does significantly influence fraudulent financial statement.

Based on the results of path analysis shows that the level of Real Earning Management as a mediating variable on the relationship of nature of industry to fraudulent financial statement significance is 0.034 because the significance level is less than 0.05 (α = 5%), so, the Hypothesis (H9) is accepted. Real earnings management as a mediating variable in the relationship nature of industry on fraudulent financial statement was accepted. So, the nature of industry (REV) can be used to detect fraudulent financial statements in the company. However, real earnings management as a mediating variable in the audit opinion on fraudulent financial statement was rejected. Audit opinion cannot reduce management motivation to carry out fraudulent financial statements because management prefers to be careful in managing its earning, this is done to avoid more supervision and inspection from interested parties. The sample company is a company that records profit after tax in a row so the company will manage profits because the company can meet the requirements and expectations of third parties, so management avoids the practice of fraudulent financial statement that can damage its reputation.

5. Conclusion

The test results of this study are financial stability, nature of industry has effect significant on fraudulent financial statement. Audit opinion has not a significant effect on fraudulent financial statement. Financial stability and nature of industry have significant effect on Real Earnings Management. Audit opinion has not a significant effect on Real Earnings Management. Real Earning Management significantly influences fraudulent financial statement. Real Earnings Management can mediate on the relationship of financial stability, nature of industry on fraudulent financial statement. Real earnings management cannot mediate on the relationship of audit opinion on fraudulent financial statement. Future research is recommended to expand the sample and develop models and add other variables that affect fraudulent financial statement.

References:

[1] AICPA. 2002. Consideration of Fraud in a Financial Statement Audit, Statement on Auditing Standard No. 99, AICPA, New York.

[2] Anestyo, Janu 2017. Fraud Triange's Terrible Analysis of fraudulent Financial Statement Detection with Short Term Discreationay Accrual and Long Term Discreationay Accrual as Vaiable Intervening. Thesis of the Accounting Study Program of Pekalongan University.

[3] Aryani, Septa. 2011, Earning Management in Manufacturing Companies in the Indonesia

Stock Exchange, Journal of Economic and Accounting Information (Genius), Vol. 1 No. May 2.

[4] Association of Certified Fraud Examiners. (2018). *Report to the Nations Global Study on Occupational Fraud and Abuse*.

[5] Beneish, M. D. (1999). The detection of earnings manipulation. *Financial Analysts Journal*, *55*(5), 24-36.

[6] Beneish, M., Lee, C., & Nichols, D. C. (2012). Fraud detection and expected returns.

[7] Cohen, D. A., Dey, A., & Lys, T. Z. (2008). Real and accrual-based earnings management in the pre-and post-Sarbanes-Oxley periods. *The accounting review*, *83*(3), 757-787.

[8] E. Lokanan, M. (2014). How senior managers perpetuate accounting fraud? Lessons for fraud examiners from an instructional case. *Journal of Financial Crime*, *21*(4), 411-423.

[9] Jensen, M., and Meckling, W, 1976, Theory of the firm: Managerial behavior, agency costs, and ownership structure, Journal of Financial Economics, 3: 305-360.

[10] Koroy, Tri Ramaraya, 2008, Fraud Detection of Financial Reports by External Auditors, Journal of Accounting and Finance, Vol. 10, No. 1, May 2008: 22-33.

[11] Kothari, S. P., Shu, S., & Wysocki, P. D. (2009). Do managers withhold bad news?. *Journal of Accounting research*, *47*(1), 241-276.

[12] Lou, Y.I., & Wang, M.L. (2009). Triangle Risk Factor of the Fraud Assesing the Likelihood of Fraudulent Financial Reporting. Journa of Business and Economic Research. February 2009. Vol.7 (2), 62-66.

[13] Marai & Pavlović, V. (2014). An overview of earnings management measurement approaches: Development and evaluation. *Facta Universitatis, Series: Economics and Organization*, *11*(1), 21-36.

[14] Rezaee, Zabihollah and Richard Riley, 2010. Financial Statement of Fraud Prevention and Detection 2nd Edition, Jhon Wiley & Sors. Inc, Hoboken: New Jersey.

[15] Roychowdhury, S. (2006). Earnings management through real activities manipulation. *Journal of accounting and economics*, *42*(3), 335-370.

[16] Skousen, J.C., et al.,2009, "Detecting and Predicting Frauduelnt Financial Statement: The Effectiveness of The Fraud Triangle and SAS No. 99. "Corporate and Firm Performance Advances in Financial Economics, Vol. 13, p. 53-81.

[17] Spathis, C. T. (2003). Audit qualification, firm litigation, and financial information: an empirical analysis in Greece. *International Journal of Auditing*, *7*(1), 71-85.

[18] Summers, Scott. L, and John T. Sweeney, 1998, Fraudulently Misstated Financial Statements and Insider Trading: An Empirical Analysis, The Accounting Review, Vol. 73, No. 1, January 1998, pp. 131 - 146.

[19] Ratmono, D. (2010). Real and Accrual-Based Profit Management: Can a Qualified Auditor Detect It. Proceeding of the National Symposium on Accounting XIII, Purwokerto.

[20] Tuanakotta, Theodorus. M, 2014 ISA Based Audit (International Standards on Auditing, Salemba Empat: Jakarta.

[21] Ulfah, M., Nuraina, E., & Wijaya, A. L. (2017, October). The Influence of Fraud Pentagon in Detecting Fraudulent Financial Reporting (Empirical Study of Banking in Indonesia Registered on the Indonesian Stock Exchange In FIPA: Scientific Accounting Education Forum. Vol. 5, No. 1).

[21] Wiyadi, R., & Noer, I. (2015). The Effect Of Information Asymmetry, Firm Size, Leverage, Profitability and Employee Stock Ownership On Earnings Management With Accrual Model. *International Journal of Business, Economics and Law*, *8*(2), 22.