

CHAPTER I

INTRODUCTION

1.1 RESEARCH BACKGROUND

The overview of financial statements at a glance may appear straightforward, but the relevance of the information content encourages managers to improve corporate performance in order to ensure the company's survival. A company publishes periodic financial reports to satisfy the information requirements of interested parties. These financial reports provide financial information that reflects a company's performance, making it crucial for management to enhance the performance of the businesses they manage. Therefore, management must provide accurate financial reports, which entails that the financial statements are prepared according to appropriate accounting principles and are free of manipulation and fraud. Management is sometimes willing to perpetrate deception (fraud) in order to make the information in the financial statements seems good. According to Bologna and Lindquist (1995), purposeful fraud is defined as lying, plagiarism, and stealing. Furthermore, the Association of Certified Fraud Examiners (ACFE) divides fraud into three categories: corruption (corruption), asset misappropriation (asset misappropriation), and fraudulent statements (fraudulent statements). Fraudulent financial statements have been identified as well in state-owned enterprises (SOEs).

One example of financial statement fraud in Indonesia is the case of a state-owned transportation and logistics company, Garuda Indonesia (Persero) Tbk. This case has a significant impact on the transportation industry since this company is suspected commits financial statement fraud by acknowledging compensation income for the right to install connectivity and entertainment service equipment on board and content management from the agreement with PT Mahata Aero Teknologi in the consolidated financial statements of PT Garuda Indonesia (Persero) Tbk in 2018 (Djumena, 2019).

According to the Supreme Audit Agency's (BPK) audit results, BPK revealed a potential conflict of interest over the audit of the consolidated financial statements

of Garuda and its subsidiaries by KAP Tanubrata Sutanto Fahmi Bambang & Partners. The results of the investigation of BPK showed there were problems related to the firm on the recognition of revenues on labor transactions equal provision of connectivity services. Garuda management before presenting the work of transactions at the provision of connectivity to the other account-operating revenues. Then based on the advice from KAP, reclassification was made to other income. The reclassification was carried out before closing the 2018 unaudited financial statements, namely, on 7 January 2019. Garuda, Citilink, and Sriwijaya had communicated regarding revenue recognition from Citilink and Mahata transactions with KAP before signing the agreement. The agreement that was not following the provisions made the partners unable to carry out the deal because they did not have sufficient technical and financial capabilities. The inability to perform the contract makes the recognition of income inconsistent with financial accounting standards. Indications of interest conflicts strengthened the fraud committed symptoms because management has consulted about the revenue recognition mechanisms before the contract was signed. Based on the phenomena described above, the researcher is motivated to examine the effect of fraud diamond elements on the detection of fraudulent financial statements by using the Beneish M-Score as a measurement model. Statement of Auditing Standards No. 99 (SAS 99) was issued by the American Institute of Certified Public Accountants (AICPA). The issue of SAS 99, which addresses the Consideration of Fraud in a Financial Statement Audit, and was motivated by major scandals such as WorldCom, Enron, and others. SAS 99 is based on Cressey's (1953) fraud triangle hypothesis, which proposes three fraud indicators: pressure, opportunity, and rationalization. Then, Wolfe and Hermanson (2004) explained how the fraud triangle in terms of fraud prevention and detection can be improved by adding one additional sign, capability. The Fraud Diamond idea was created by Wolfe and Hermanson in 2004. The objects used in this study are the transportation and logistics companies listed on the Indonesia Stock Exchange during 2019 – 2022.

1.2 RESEARCH PROBLEM AND RESEARCH QUESTIONS

- 1) Does External Pressure has an effect to the possibility of fraudulent misstatements among the Transportation and Logistics Sector Listed in IDX during 2019 – 2022?
- 2) Does Ineffective Monitoring has an effect to the possibility of fraudulent misstatements among the Transportation and Logistics Sector Listed in IDX during 2019 – 2022?
- 3) Does Auditor Change has an effect to the possibility of fraudulent misstatements among the Transportation and Logistics Sector Listed in IDX during 2019 – 2022?
- 4) Does Director Change has an effect to the possibility of fraudulent misstatements among the Transportation and Logistics Sector Listed in IDX during 2019 – 2022?

1.3 RESEARCH OBJECTIVES

This research aimed to obtain empirical evidence about the effectiveness of fraud diamond in explaining the tendency of fraudulent financial statements. To achieve these objectives, this research examined the factors that influenced fraudulent misstatements consisting of 4 independent variables; pressure element (External Pressure); opportunity element (Effective Monitoring); rationalization element (Auditor Change); and capability element (Directors Change). The population of this research is the companies in Transportation and Logistic sector listed in Indonesia Stock Exchange during 2019-2022.

1.4 RESEARCH CONTRIBUTIONS

A. ACADEMIC CONTRIBUTION

This thesis contributes to the existing literature through implementing the Fraud Diamond Theory as a conceptual framework to assess the possibility of fraudulent misstatements. The thesis improves our comprehension of the fundamental variables that contribute to financial statement fraud by delving into the theory's essential aspects (pressure,

opportunity, rationalization, and capability). This theoretical contribution enriches the field of fraudulent activity investigations by providing a comprehensive framework for analyzing and evaluating fraud risks.

B. PRACTICAL CONTRIBUTION

The findings of this study can be beneficial to various stakeholders, including auditors, regulators, investors, and financial statement users. The practical recommendations provided in the thesis contribute to the improvement of fraud risk management practices, internal controls, and fraud detection and prevention mechanisms. These contributions may help professionals reduce the likelihood of fraudulent misstatements. The insights gained from this research can help improve the quality of audits and financial reporting, leading to greater transparency and trust in financial markets.

1.5 DISCUSSION SYSTEMATIC

This research consists of five chapter:

CHAPTER 1 INTRODUCTION

This chapter covers the research background, problem formulation, research objectives, research benefits, research limitations, data analysis and research systematics.

CHAPTER 2 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter consists of theoretical basis, previous research, and hypothesis development.

CHAPTER 3 RESEARCH METHOD

This chapter contains data and data sources, population and samples, sampling techniques, operational definitions of variables and their measurements as well as data analysis methods used in the research.

CHAPTER 4 ANALYSIS AND DISCUSSION

This chapter give an explanation of data analysis and the results of the discussion.

CHAPTER 5 CONCLUSION AND LIMITIATION

This chapter consists of the conclusion of the research, research limitations, and suggestions for future research.

