

UNFOLDING THE DIAMOND OF FRAUD : WHAT DRIVES FINANCIAL STATEMENT MANIPULATION IN INDONESIA?

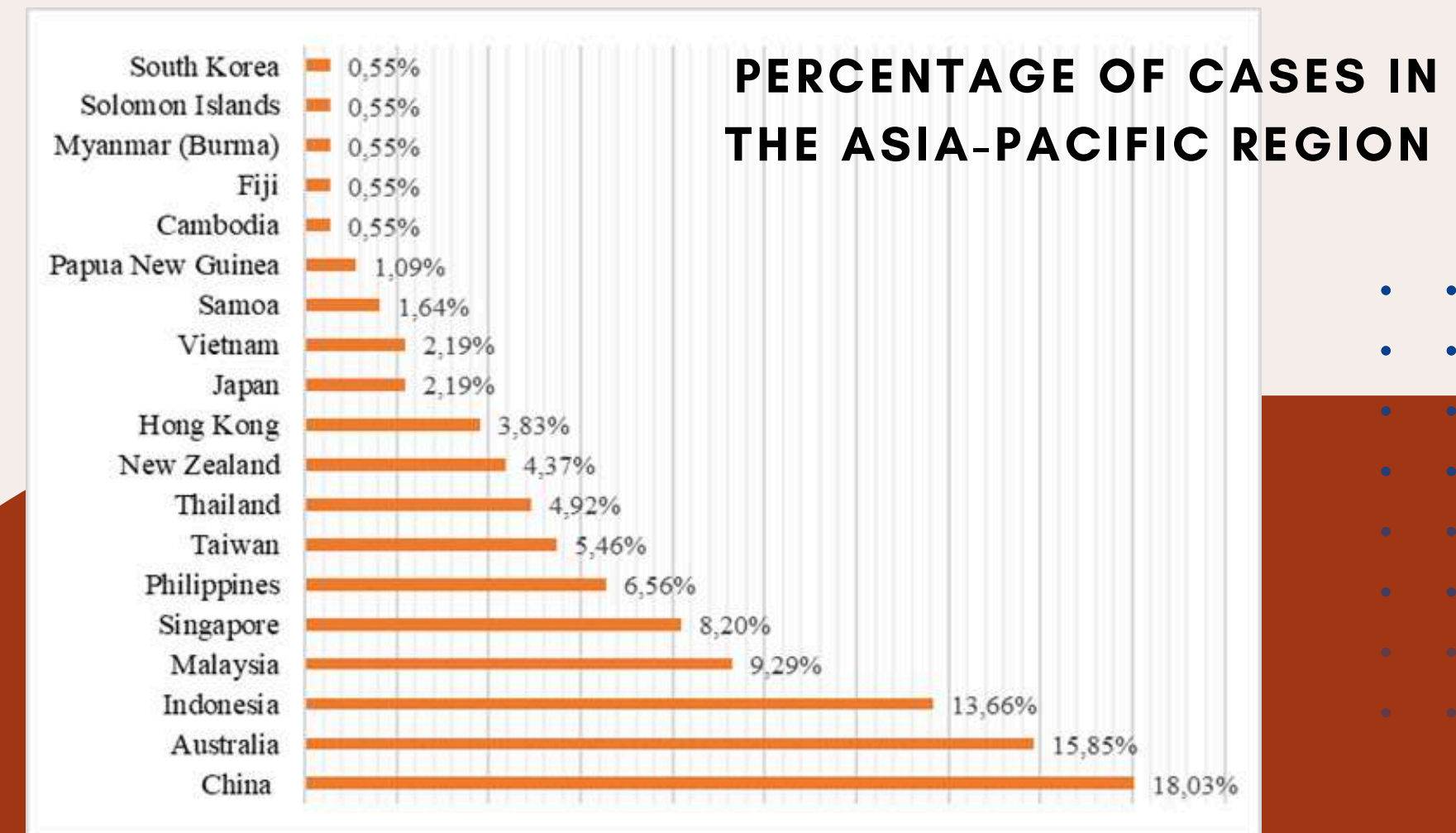
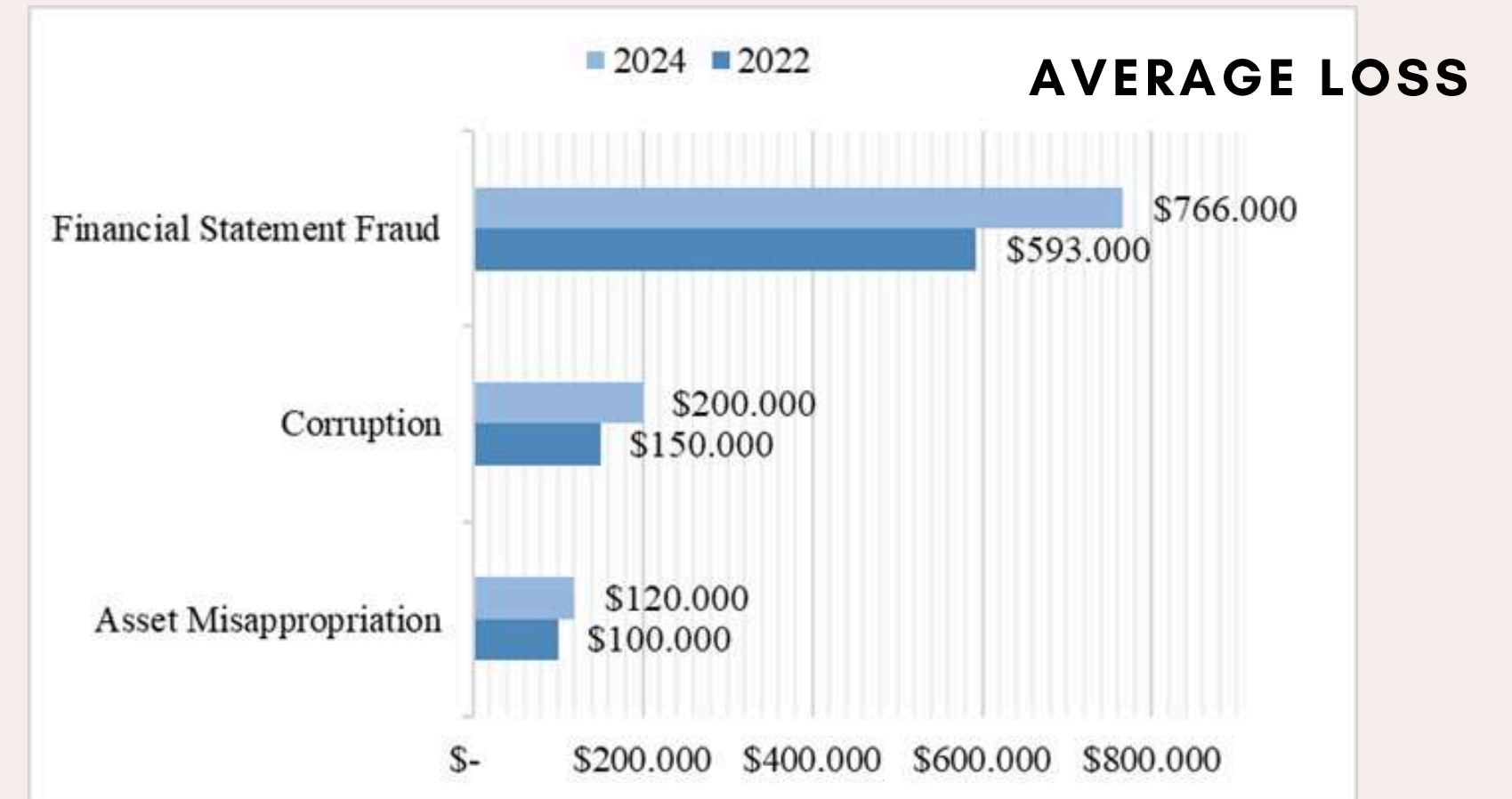
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INTRODUCTION

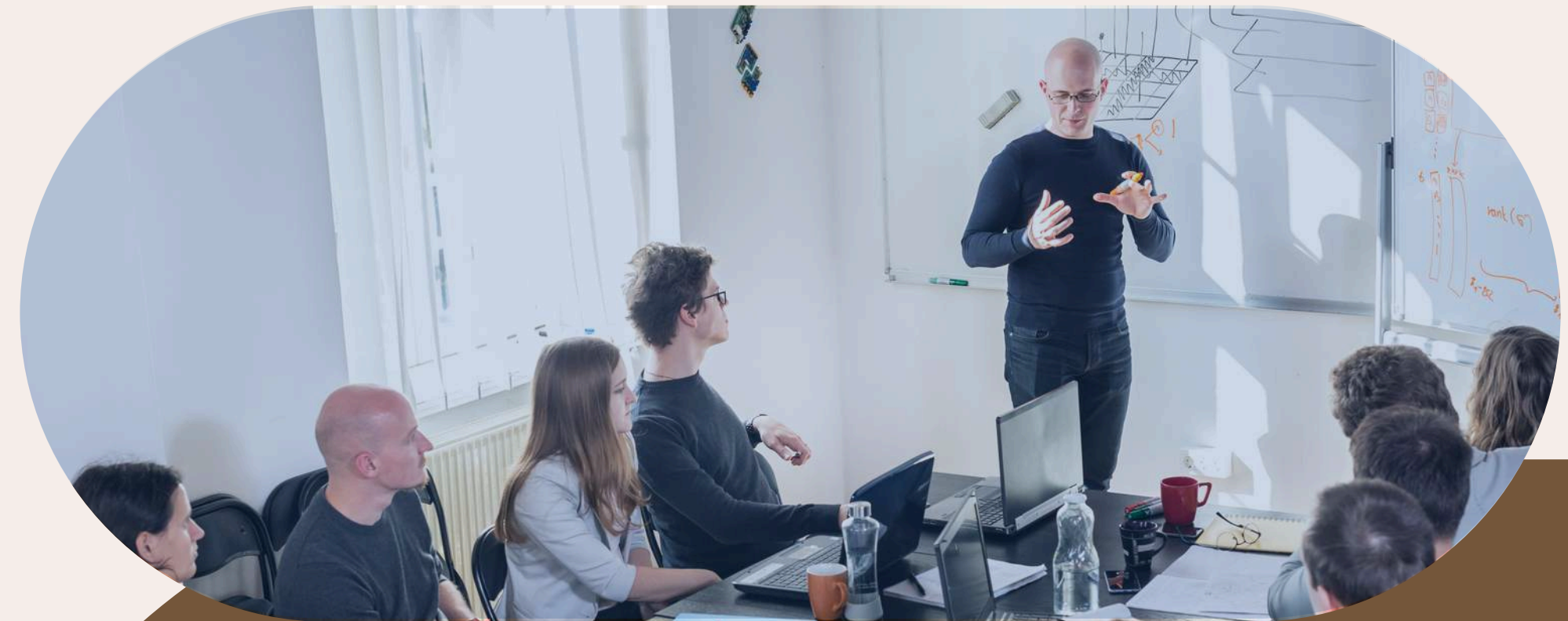
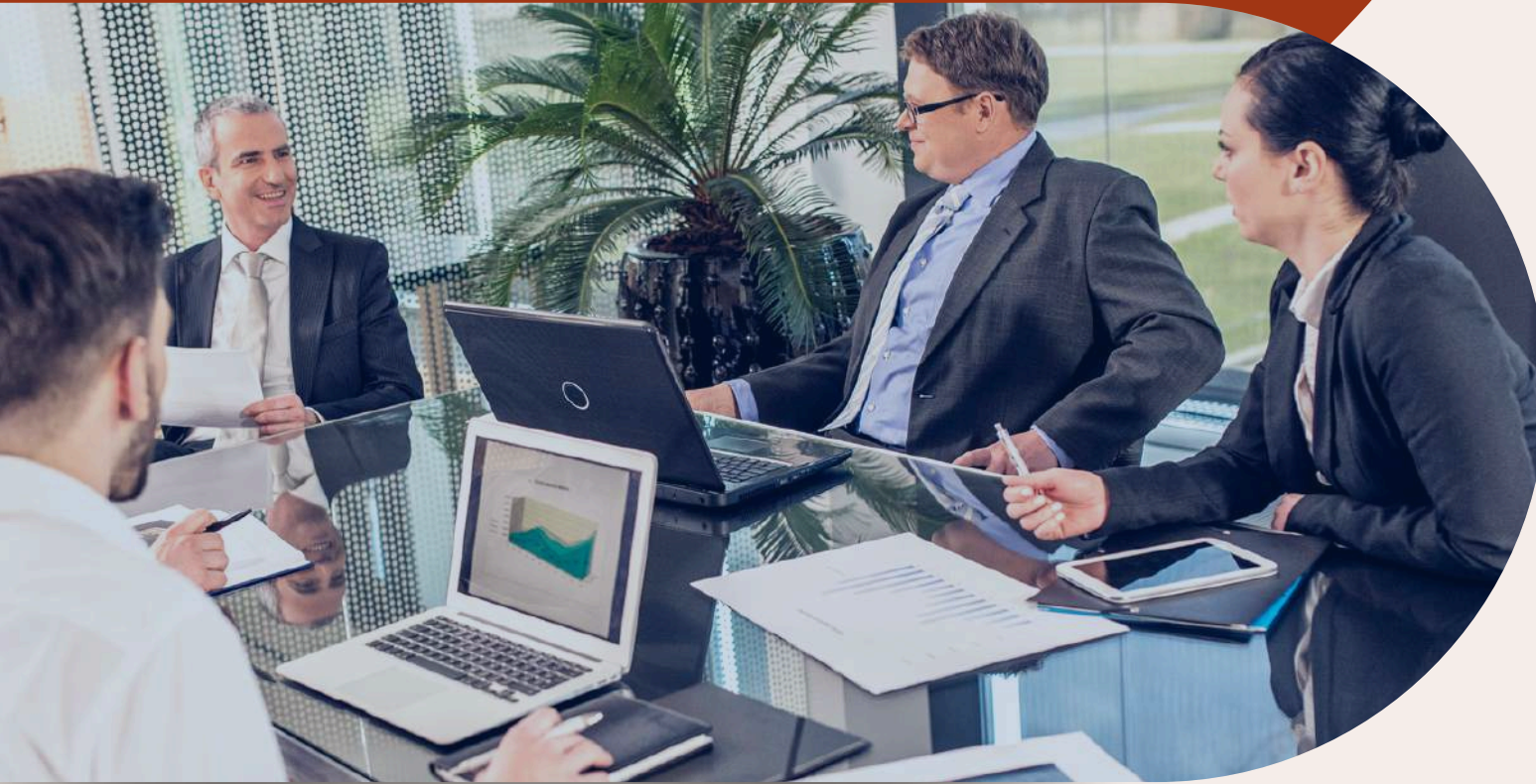
- Financial Reporting reflect the performance of entity
- Stakeholder as a user of financial information
- Decision Making



RESEARCH PROBLEM

RESEARCH GAP

- Limited focus on the pharmaceutical subsector.
- Most previous studies have measured pressure by ROA and capability solely by education level.



NOVELTY

- Uses ROE to measure financial pressure.
- This research considers financial distress as a moderator.





RESEARCH PURPOSES

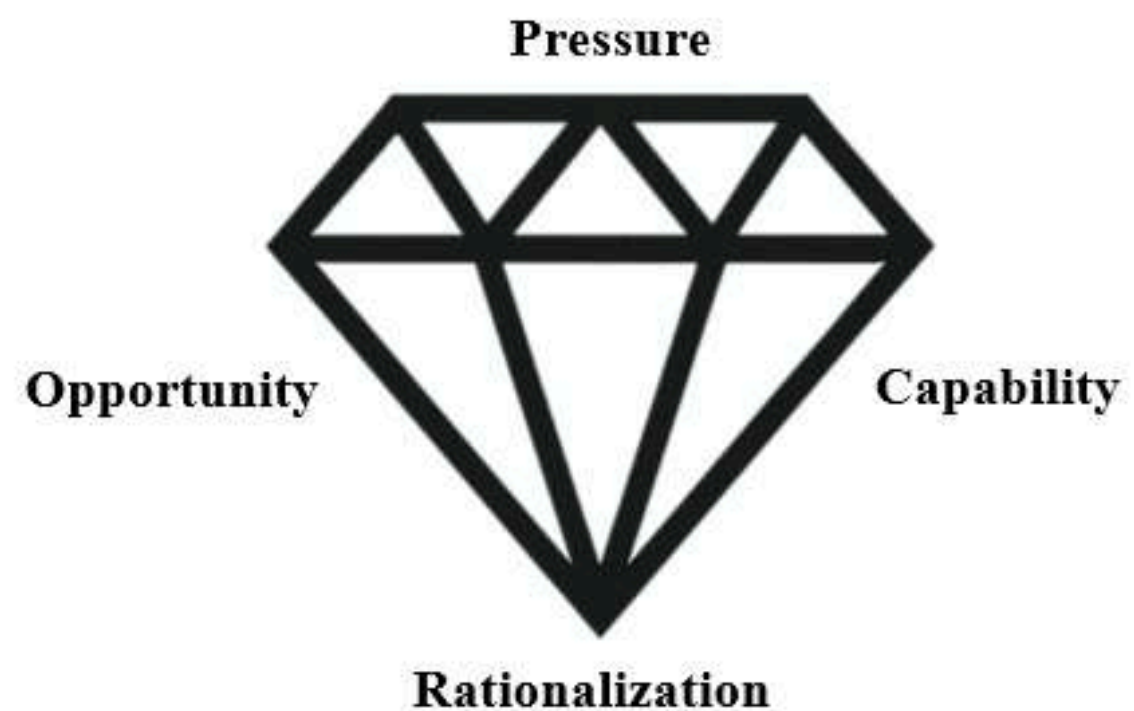
This study explores the influence of financial target, nature of industry, auditor switching, and director's financial expertise on fraudulent financial reporting, with financial distress as a moderating variable.





LITERATURE REVIEW

- Agency Theory
- Fraud Diamond Theory



- H1 : Financial targets has a positive and significant effect on financial statement fraud
- H2 : The nature of the industry has a positive and significant effect on financial statement fraud
- H3 : Auditor switching has a positive and significant effect on financial statement fraud.
- H4 : Director's financial expertise has a negative and significant effect on financial statement fraud
- H5 : Financial distress moderates the effect of financial targets on financial statement fraud.
- H6 : Financial distress moderates the effect of the nature of the industry on financial statement fraud.
- H7 : Financial distress moderates the effect of auditor switching on financial statement fraud.
- H8 : Financial distress moderates the effect of director's financial expertise on financial statement fraud.

METHODOLOGY

We used secondary data from annual reports of pharmaceutical firms in the healthcare sector on the IDX between 2020 and 2024. There are a total of 50 observations. Using a quantitative approach.

Variable	Measurement
Financial Target (Pressure)	ROE
Nature of Industry (Opportunity)	Inventory Growth
Auditor Switching (Rationalization)	1 when changing auditors, 0 means no change in auditors.
Director's Financial Expertise (Capability)	Proportion of directors with a financial background to the total number of directors
Fraudulent Financial Statement	F-Score
Financial Distress	Z''-Score



RESULTS AND DISCUSSIONS

The results show there's no multicollinearity issue and no heterodidacticity issue in the model. This study uses the Fixed Effect Model for multiple linear regression dan MRA.

Multiple linear regression

Variable	Coefficient	p
C	0.405395	0.0122
FT	0.221601	0.0036*
NOI	0.535302	<0.001**
AS	-0.238041	0.0959
DFE	-17.26891	0.0004**
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R-squared	0.746468	
Adjusted R-squared	0.654915	
Prob(F-statistic)	0.000000	

Moderated Regression Analysis

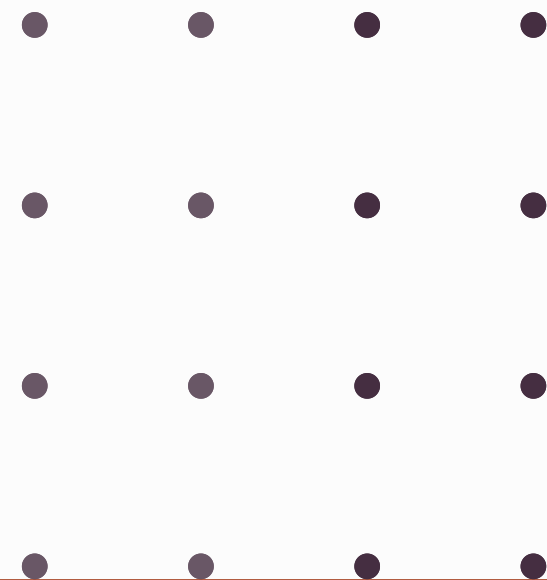
Variable	Coefficient	p
C	0.405395	0.3143
FT	0.653266	0.0011
NOI	0.499389	0.0001
AS	-0.122809	0.4480
DFE	-15.85200	0.0025
FT*FD	0.111938	0.0206*
NOI*FD	-0.005304	0.8422
AS*FD	-0.118078	0.3218
DFE*FD	0.121425	0.7617

R-squared	0.797082
Adjusted R-squared	0.689282
Prob(F-statistic)	0.000001



CONCLUSION

The research results indicate that financial targets, the nature of the industry, and the expertise of the board of directors significantly influence financial statement fraud, while auditor turnover does not. Financial distress only moderates the relationship between financial targets and fraud. This finding confirms that internal pressure, industry complexity, and managerial competence are more dominant in influencing fraud than external financial conditions. The limitations of the study include the sample size and one indicator of the fraud diamond. Further research is suggested to include other sectors, consider auditor reputation, and utilize additional indicators.



THANK YOU

