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The Influence of Leverage, Working Capital Turnover and Profitability on Fraudulent Financial Statements in Manufacturing Companies

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Abstract

This study's objective was to investigate the impact of profitability, working capital turn over, and leverage on false financial statements in manufacturing firms. Secondary data in the form of financial report files registered at IDX.com, with multiple variable statements in the form of leverage, working capital turnover, and profitability, was collected for this study. Descriptive analysis, data quality testing, data normality testing, the classical assumption test, multiple linear regression analysis, and the coefficient of determination test were used to analyze the data. The variable X_1 and X_3 had an impact on Y, according to the findings of the hypothesis' testing at a level of 5%. The result of the t test demonstrated that while the Working Capital Turnover variable had to significant impact on Financial Statement Fraud, the Leverage and Profitability factors did. According to the coefficient of determination test (R^2), the dependent variable is affected by the independent factors by 19,6%, while of the variable are responsible for the remaining 80,4% of the variance (0.433).

Keywords: *Leverage, Profitability, Working Capital Turnover.*

INTRODUCTION

According to PT Garuda Indonesia (Persero) Tbk, its financial performance in 2018 was outstanding, with a net profit of US$ 809 thousand, or roughly Rp 11.33 billion. However, two business commissioners declined to sign the financial statements because they believed there were inconsistencies in the way transactions were recorded as income by management in order to polish the 2018 annual financial reports. The timeline states that Mahata had direct contact with PT Citilink Indonesia, a Garuda Indonesia subsidiary that has been profitable up to US$ 239.9 million. Mahata has agreed to cover all expenses associated with providing, installing, running, and maintaining the connectivity service equipment as part of this agreement. However, management continues to record the report as compensation income for the right to install broadband service equipment and in flight entertainment even though Mahata hasn't really paid a single penny of the complete compensation agreed upon until the end of 2018.

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Garuda Indonesia's financial records ultimately showed a net profit. Regulators, however, discovered this. Garuda Indonesia ultimately received a written warning III from the Indonesia Stock Exchange (IDX), a fine of IDR 250 million, and a requirement that it amend and present financial records. Additionally, Garuda Indonesia and each member of the board of directors were each fined Rp 100 million by the Financial Services Authority (OJK). OJK mandates that businesses update and restate their financial records from 2018. OJK freezes the Certificate of Registration (STTD) for Public Accounting Firms (KAP) to KAP Kasner Sirumapea for a period of one year. On the other side, the Ministry of Finance also put AP Kasner Sirumapea's license on ice for a year. financial statements that are fraudulent or other fraudulent representations.

By focusing on the Pressure/Encouragement, Opportunity, and Attitude/Rationalization related to the possibility that threatens the emergence of fraudulent financial statements, this study seeks to discover fraud factors in SAS No. 99 (AICPA 2002). The goal of this project is to create a fraud prediction model that uses established audit risk variables to forecast the likelihood of financial statement fraud.

LITERATURE REVIEW

The leverage ratio, according to Hanafi & Halim (2012), is a ratio that assesses a company's capacity to meet its longterm obligations. The riskier it is since losses also rise with increased leverage and less selling capital. The Debt to Asset Ratio can be used as a stand-in for the leverage ratio when a corporation is suspected of fraud. This ratio demonstrates the amount of debt that is utilized to fund the company's assets.

Every business, according to Burhanudin (2017), requires working capital to finance its ongoing operations, such as paying staff salaries, where the money or funds invested are anticipated to be able to return to the company in the short term through the sales of its goods. (Chen, 2015) These researchers demonstrated that there is a link between the likelihood of fraudulent financial reporting and the working capital turnover ratio that is unfavorable. They came to the conclusion that businesses with high working capital turnover ratios, a sign of effective capital management, typically have lower fraud rates.

The profitability ratio, in accordance with Mamduh M Hanafi and Abdul Halim (2012:75), offers a detailed evaluation of the performance of the organization and its management. This ratio gauges the potential level of earnings for the business. In order to avoid paying taxes, the corporation deliberately achieved minimal profits. Low profitability ratio businesses are more likely to engage in misleading financial reporting.

METHOD

Quantitative research methodology is employed. The choice of financial statements is in accordance with the sanctions reports for the 2018–2022 period released by the Financial Services Authority

(OJK). Businesses that don't engage in financial statement fraud are listed on the Indonesia Stock Exchange (IDX). Adjusting the size of the firm based on the entire worth of the company's assets is the method used to compare with businesses that engage in financial statement fraud (Diany, 2014). The total worth of the assets of businesses that don't make false financial statements is reduced to account for businesses whose total assets are almost identical but who make false financial statements. Businesses that possess the necessary research-related data, including the financial ratio's component parts.

Secondary data are the type of information used in this study. According to Sugiyono (2018), secondary data is information that researchers or data collectors indirectly get. Because the information is gained through intermediaries, which can be other people or papers, it is considered to be indirect.

The data collection method in this study makes use of database techniques, gathering the necessary information from reports on sanctions released by the Financial Services Authority (OJK) and from the official website of the Indonesian Stock Exchange (IDX), www.idx.co.id, with regard to the annual report of a sample company used. Data relevant to the study's dependent variable investigation. Ghozali (2012), states that logistic regression is used to determine whether the independent variable's ability to forecast the likelihood that the dependent variable will occur may be tested. The assumption of normality on the independent variables is not necessary for the logistic regression analysis technique. Gujarati (2003), contends that heteroscedasticity is disregarded by the logistic regression analysis method. To determine whether the alternative hypothesis put out in the study was accepted or not, a logistic regression test was run. The benchmark utilized in this study to determine whether the alternative hypothesis that has been provided can be accepted is if the significance value achieved is less than 5%.

RESULT AND DISCUSSION

Finding the impact of two or more independent variable on the dependent variable is the goal of multiple linear regression analysis. Table 1 of this study's results displays the outcomes of several linear regression calculations made using the SPSS 25.0 software.

Table 1 Multiple linear regression

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.247	.044		5.610	.000
	DAR	-.005	.002	-.250	-3.135	.002
	PMK	-.004	.002	-.139	-1.902	.059
	ROA	-.028	.009	-.259	-3.246	.001

a. Dependent Variable: ACHANGE

Y = 0.247 - 0.005DAR - 0.004PMK - 0.028ROA is the result based on the output above. According to this equation, the constant value is 0.247, which means that Y (ACHANGE) has a value of 0.247 if DAR, PMK, and ROA are all zero. The DAR regression coefficient is -0.005, and since PMK and ROA are assumed to be constant, a drop in DAR will result in an increase in Y (ACHANGE) of -0.005. The PMK regression coefficient is -0.004, and since DAR and ROA are assumed to be constant, a drop in PMK will result in an increase in Y (ACHANGE) of -0.004. The ROA regression coefficient is -0.028, and since DAR and PMK are assumed to remain constant, a drop in ROA will result in an increase in Y (ACHANGE) of -0.028.

The T test essentially seeks to determine the extent to which each independent variable in a study has an impact on the dependent variable. By examining the Sig value when doing a partial T test, decision-making can be observed. The significance level for this study is 5%, or 0.05. Finding the value of the r table is important to examine the association between the independent and dependent variables. The criteria for the r table in this study are a residual df of 25 with a significance of 0.025, which is 2.059. The test findings can be explained in table 2 based on the output table.

Table 2 Hypothesis Test (t test)

Coefficients[a]

Model		t	Sig.
1	(Constant)	5.610	.000
	DAR	-3.135	.002
	PMK	-1.902	.059
	ROA	-3.246	.001

a. Dependent Variable: ACHANGE

The t count value is -3.135 with a probability value (p) of 0.002 according to the analysis results table, while the tcount value with df = 151 and alpha 0.05 is -1.976. Leverage significantly affects the likelihood of false financial statements, as shown by the probability value of p (0.002) 0.05 and the value of -t count (-3.135) – t count (-1.976), respectively. Additionally, a probability value (p) of 0.059 results in a tcount value of -1.902 while a tcount value of -1.976 is achieved with a df = 151 and an alpha of 0.05. Working Capital Turnover has no discernible impact on the chance of false financial statements because the value of -tcount (-1.902) > -t count (-1.976) or the probability value is p (0.059) > 0.05. Additionally, the t count value with df = 151 and alpha 0.05 is -1.976, but the tcount value with -3.246 with a probability value (p) of 0.001. Profitability has a considerable impact on the chance of false financial statements, as shown by the probability value of p (0.001) 0.05 and the value of -tcount (-3.246) -tcount (-1.976).

CONCLUSION

The effectiveness of financial ratios in spotting false financial statements is examined in this study. In this study, financial parameters such as leverage, profitability, and capital turnover ratio were used. The Financial Services Authority's sanction reports for the years 2018 through 2022 were utilized as the study's sample, which was then compared to the financial statement of businesses listed on the Indonesia Stock Exchange (IDX).

According to the study's findings, profitability and leverage are both proxied by net income/total asset and total debt/total assets, respectively, with an impact on false financial statements. While falsified financial statements are unaffected by working capital turnover.

Researchers can advise businesses to track, assess, and disclose firm performance that accurately reflects the current condition. This is done to avoid misleading financial reporting, which could later hurt the company as well as third parties. In order to get the best results, it is also hoped that future researchers would be able to employ more samples from various other industries. For further research, it is intended that they can seek for more additional reference materials, such as foreign literature. Then, it is anticipated that they will be able to identify other proxy factors that can be used to discover other variables that are assumed to influence the probability of fraud appearing in financial reports.

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