Original Article

Public Perception of Fraudulent Financial Statements in Pharmaceutical Sub Sector

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Abstract

This article discusses the public perception of fraudulent financial statements in Pharmaceutical Sub Sector. Fraudulent actions against financial statements will have a detrimental impact on the company and also the investors. This study uses a qualitative method with a literature and literature study approach. The study results explain that financial statements provide useful information for potential investors, creditors, and other users to make rational investment decisions, granting credit, and other similar decisions. Fraud in financial statements will have an impact on decreasing investor confidence and other users of financial statements. Fraud is a process or manipulation that can harm the company. Financial statement fraud can be detected through vertical, horizontal, and ratio analysis. Fraud can be influenced by 3 factors called the Fraud Triangle: pressure, opportunity, and rationalization so that fraud can be accepted. To prevent fraud in the financial statements, preventive action is needed including the company's internal control and also supervision from investors and creditors through an external audit process.

Keywords: Perception, Fraud, Pharmaceutical Sub Sector, Financial Report.

1. INTRODUCTION

One of the functions of financial statements according to the FASB is "providing useful information for potential investors, creditors and other users to make rational investment decisions, granting credit, and other similar decisions," according to a statement contained in the statement of financial accounting concept (Tiosanna, 2020). SFAC) number 1. Therefore, financial statements must meet the qualitative elements and must also be presented by the provisions of the statement of financial accounting standards (PSAK). The direction and accuracy in the presentation of financial statements as well as matters that affect the quality of the information produced have been clearly stated in PSAK. Stakeholders must believe that the financial statements have been presented by the provisions of the statement of financial accounting standards, then the financial statements that have been prepared by management are audited by a public accountant. However. (Rusmana & Tanjung, 2020)

Fraud in the financial reporting process by increasing the value of asset sales, lowering selling costs, payables and expenses, changing the transaction period, and measuring the occurrence of transactions that are not correct is an abuse of generally accepted accounting principles (Asraf et al., 2022). Statement on Auditing Standard No.99 (SAS No.99) classifies indications of the possibility of fraud (red flags) based on the fraud triangle concept through opportunity, pressure, and rationalization factors. Indications of fraud combined with the fraud triangle theory, accountants should be able to better process the possibility of fraud. Indonesian Institute of Accountants (IAI, 2001) through the Statement of Auditing Standards (PSA) No. 70 which adopted SAS No. 99 requires external accountants in Indonesia to consider fraud during the financial statement audit process (IAI, 2001). (Suhendah, 2019)

The survey results show that the most detrimental fraud in Indonesia is corruption. Sequentially as many as 167 respondents or 69.9% stated that corruption is the most detrimental fraud act in Indonesia. In the next order, as many as 50 respondents or 20.9% stated that the Misuse of State & Company Assets/Wealth caused losses. While the third as many as 22 respondents or 9.2% stated that financial statement fraud caused losses. (Association of Certified Fraud Examiners Indonesia, 2019)

Table 1. Number of Fraud by type

No	Types of Cheating	Number of Cases	Percentage
1	Financial statement fraud	22	9,2%
2	Corruption	167	69,9%
3	Misuse of State Assets	50	20,9%

Source: ACFE Indonesia

Judging from the survey in table 1 above, corruption is still the highest case, after misusing of state assets. However, the amount of fraud in the financial statements is also a problem that deserves attention. The occurrence of fraud is a deliberate act, and if the fraud cannot be detected by an audit, it can have a detrimental and flawed effect on the financial reporting process. And provide a big loss for the company itself. According to auditing standards, the factor that distinguishes fraud and error is whether the underlying action, which results in a misstatement in the financial statements, is an intentional or unintentional act. (Jefri & Mediaty, 2014).

The occurrence of fraud in financial reporting will certainly reduce public confidence in the results of the financial statements themselves. The impact is a decrease in financial support from investors or creditors. Perception is the final process of observation that begins with the sensing process, namely the process of receiving the stimulus by the senses, then the individual has attended, then it is passed on to the brain, and only then does the individual realize something called perception. With perception, the individual realizes that he can understand the state of the environment around him and about things that exist within the individual concerned. (Ayuningtyas, 2017).

Everyone tends to see the same thing in different ways. These differences can be influenced by many factors including knowledge, experience, and point of view. This causes different views that form a perception of the results of financial reporting. Human perception generated by sensing will perceive something either positive or negative perception that will affect human action in making a decision. (Fuady et al., 2017). To prevent fraudulent actions and negative perceptions that will continue to develop on the results of financial reporting, the role of auditors is needed to minimize the occurrence of such fraud. There have been many research results that explain the perception of financial reporting. (Purnomo et al., 2022) in his research states that the quality of financial reporting that shapes public perception is strongly influenced by the ethics of the auditor and also professionalism. If ethics and professionalism can be maintained properly, it will greatly affect the results of financial reports

(Rosari et al., 2021) his research also revealed the influence of morality, religiosity, and integrity on the prevention of fraud in financial reporting. The results show that morality affects fraud prevention.

2. Literature Review

Agency Theory

Agency theory is a contract in which one or more shareholders (principal) engage management (agent) to perform some services on their behalf. Shareholders (principals) can limit the divergence of their interests by setting appropriate incentives for management (agents) and by incurring monitoring fees designed to limit the deviant activities of management (Santoso, 2020). Agency theory can explain that agents can take advantage of funds that have been given by the company owner for the benefit of the agent unilaterally so that the information contained in the presentation of financial statements can be manipulated by agents without the company owner knowing the fraud will be even greater. and will lead to fraud in the presentation of financial statements (Maulana, 2022). The difference in interests that arise between the principal and the agent is that each party tries to increase profits for themselves. (Rosari et al., 2021)

Financial Report Fraud

Fraud is a deliberate act by manipulating, deceiving or other dishonest ways to control or take over money, property, or legal rights belonging to another person either because of an action or the fatal impact of the act itself. There are many cases of fraud which is a problem, faced by many countries not only in developed countries. (Reskino & Anshori, 2016)

Financial statement fraud is usually perpetrated by management with their knowledge. Isabella, 2018 argues that financial statement fraud is management fraud, namely, "deliberate fraud can be carried out by management that harms investors and creditors through misleading financial statements". Thus, it can be defined that fraud in general and fraudulent financial statements, in particular, are intentional and detrimental to other parties.

Forensic Fraud defines fraud as irregularities and illegal or unlawful acts that are carried out intentionally to achieve certain goals, for example by deceiving or giving a wrong picture to other parties and can be carried out by parties both inside and outside the organization (Sihombing ET AL., 2019). Fraud can also be called an act of fraud intentionally carried out by someone or more consciously and without an element of coercion and can harm other people (victims) and benefit the perpetrators. Through an Indonesian Fraud Survey in 2019, it was found that fraud is an unlawful act intentionally for a specific purpose (eg manipulating or presenting false reports to other parties) and is carried out by internal and external parties of the organization to obtain personal or group benefits and can harm other parties. others, either directly or indirectly. (Mintara & Hapsari, 2021)

Four factors drive a person to commit fraud, namely: greed (greed), opportunity (opportunity), need (need) and exposure (disclosure). Opportunity and exposure (called generic/common factors) related to organizations as victims of fraudulent acts are influenced by accounting compliance, internal control systems, fairness within the organization/company, and compensation suitability. While the greed and need factors (called individual factors) are related to the behavior inherent in a person. Individual factors are related to the inherent behavior of the individual itself, about these individual factors related to morality. (Marlina et al., 2019)

Public Perception

Perception is defined as a cognitive process in which an individual selects, organizes, and gives meaning to environmental stimuli. Through perception, individuals try to rationalize the environment and objects, people, and events in it. Perception is the experience of objects, events, or relationships obtained by inferring information and interpreting messages (Tambunan, et al., 2018).

A person's perception is an active process that plays a role, not only in the stimulus that hits him but also in the individual as a whole with his experiences, motivations, and attitudes that are relevant in responding to the stimulus. Individuals about the outside world always make observations to be able to interpret the stimuli received and the senses are used as a link between the individual and the outside world. For the observation process to occur, it is necessary to observe objects that are quite good senses and attention is the first step in a preparation for conducting observations. Perception in a general sense is a person's view of something that will make a response to how and with what someone will act. A person's perception is different from other people's perceptions of an object. (Yuliasih et al., 2017).

Personal factors that can influence interpersonal perception include experience, motivation, and personality. Other factors that can influence perception can come from within the perceiver, in the perceived target, or in the situation in which the perception occurs. (Yulifah & Irianto, 2013)

3. Method

This research is qualitative, namely, research that holistically intends to understand what phenomena are the subject of research, be it events, perceptions, and actions, as well as with descriptions in the form of words and language, in special natural contexts, and by utilizing various ways. experience. The approach used is conceptual, and literature study. Several studies related to financial statement fraud cases were analyzed using the method of interpretation and content analysis. Furthermore, the author also uses a literature study that cannot be separated from research. The theories that underlie the problem and the area to be researched can be found by conducting a literature study. In addition, a researcher can obtain information about similar or related studies. And the research that has been done before. By conducting a literature study, researchers can take advantage of all the information and thoughts relevant to their research. (Purwono, 2018)

4. Results and Discussion

4.1. Public Perception of Fraudulent Financial Statements

Accounting Student Perception

Accounting students are an intellectual group who will prepare as candidates for managing financial statements both in companies and in accounting firms. The understanding and level of sensitivity of students will be different from alumni who already have experience in the work process in the business world. Student perceptions of fraud are very important to assist in eradicating cases of fraud in financial reporting

Many researchers have investigated how students perceive the issue of speech. Fraud arises due to a weakness in the information system that becomes a loophole for fraud. Three factors influence a person's perception, namely:

1. Perception Perpetrators Individual interpretation of an object is strongly influenced by the individual characteristics of the perceptual actors. Individual characteristics that influence perception are attitudes, motivations, interests, past experiences, and expectations.

2. Target The characteristics of the target being monitored can influence what is perceived. Objects that are close to each other tend to be perceived together. In addition, similar objects tend to be grouped. The greater the similarity of an object, the greater the tendency to perceive these objects as a group together.

3. Situation Elements in the surrounding environment can affect perception. Perception can vary depending on the context in which an object is observed.

User Perception of Financial Statements

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Based on the classification of fraud in the outline, it can be seen that:

1. Financial Statement Fraud.

Fraud in the presentation of financial statements can generally be detected through financial statement analysis as follows:

a) Vertical analysis

b) Horizontal analysis

c) Ratio analysis

2. Misappropriation of assets (Asset Misappropriation)

Techniques for detecting fraud in this category vary widely. However, a proper understanding of good internal control in these items will be very helpful in carrying out fraud detection. Thus, many techniques can be used to detect each case of asset abuse. Each type of fraud can be detected through a variety of different techniques.

a) Analytical review

b) Statistical sampling

c) Vendors or outsiders' complaints

d) Site visit – observation

3. Corruption (Corruption)

Honest coworkers can mostly detect fraud through their complaints, as well as complaints to the company from dissatisfied colleagues or suppliers. From the alleged fraudulent act, the next step is to analyze the suspect and the flow of the transaction. Detection of this fraud can be seen from the characteristics (Red flag) of the recipient and the giver.

Factors Driving Fraud

3 factors influence or encourage someone to commit fraud which is called the fraud triangle (Wahyuni & Budiwitjaksono, 2017), namely: pressure (pressure), opportunity (opportunity), and rationalization so that fraud can be accepted (rationalization).

1. There is pressure experienced by the perpetrators of fraud. Various types of pressure can cause someone to cheat. These frauds can be grouped into four types, namely:

a. Financial Pressure is the main pressure that can cause someone to commit fraud.

b. Bad Habits that lead to addiction such as gambling, drug consumption, and alcoholic beverages can be the cause of someone cheating.

c. Job Pressure Inadequate wages, lack of appreciation for performance, and fear of losing your job can be triggers for fraud.

d. Other Pressures Fraud acts can also arise due to other pressures such as the desire to fight the system or a husband/wife who demands the fulfillment of a luxurious lifestyle.

2. There is an opportunity to commit fraud. Fraud acts can occur if the existing system in the organization provides opportunities.

3. The factors that influence the level of opportunity for fraud to occur are as follows:

a. Control Factor is an organization's internal control structure that can prevent and detect fraud. A weak control structure will increase the risk of fraud.

b. Non-controlling Factors Non-controlling factors include matters outside the internal control structure, namely:

1) Inability to assess the quality of performance

2) Failure to take action against fraud perpetrators

3) Lack of access to information

4) Negligence and lack of capability to detect illegal acts

5) Lack of audit trail

4. Rationalization or justification for fraudulent acts by perpetrators Commonly used rationalizations by fraud perpetrators are:

a. The company is indebted to the perpetrators

b. The perpetrator only borrows the money taken and will return the money at a later date

c. Neither party will be hurt

d. The perpetrator feels entitled to more than he has legally earned

e. This fraudulent act was done for good

Indications of Cheating

It takes time to detect indications of fraud, based on the results of the ACFE Indonesia survey, it is known that it takes at least 12 months to detect fraud. Indications of fraud are a set of circumstances that are unusual or do not occur naturally or are different from normal activities and are a sign that something is happening out of the ordinary and needs to be investigated. Not all indications of fraud indicate an error or fraud has occurred, but only provide a warning signal that there is a possibility of fraud. Indications of fraud can be seen from several phenomena, one of which is a conflict of interest in the company. Indications of fraud have several types, as disclosed (Baihaqy & Kusuma, 2012):

1. Employee Red Flag is an indication that arises from employees of a company such as excessive changes in an employee's lifestyle, employee refusal to take leave or vacation, and lack of segregation of duties in work in areas prone to fraud.

2. Management Red Flag is an indication of fraud that arises from the management of a company such as a reluctance to provide information to accountants, certain individuals or groups dominating management decisions, internal control weaknesses, and the number of year-end transactions excessive than usual transactions.

3. Change in Behavior Red Flag is an indication of fraud that can be seen from changes in individual attitudes that allow for embezzlement of company assets that has been carried out by the individual, such as a refusal to take leave or vacation for fear of being detected because his job position will be replaced by someone else so it will be easy The individual's asset embezzlement scheme was revealed.

4. Red flags in Cash/Accounts receivable are assets that are most often misused, such as unauthorized bank accounts, bank accounts not being recorded in time, or abnormal amounts of expenses, supplies, or reimbursements for employees.

5. The red flag in Payroll is an indication that is in the payroll section. Indications on the payroll/payroll deserve more attention. Although this area functions automatically, but often the possibility of collusion. Such as overtime charged during holidays, irregular overtime hours at the cost center, or there are employees with multiple identities. These examples are used to cover the embezzled flow of money on the payroll.

6. Red flags in Purchasing/Inventory are indications that arise from the warehouse or procurement department in a company. Can be seen with signs such as an increase in inventory but not followed by an increase in sales, there is a list of vendors without a clear physical address, a very high purchase rate for new vendors, there is a vendor address that matches the address of the company's employees or the presence of shipping costs. without any valid documents for the delivery.

Fraud Prevention with Internal Measures

Internal control is a plan, method, procedure, and policy designed by management to provide adequate assurance on the achievement of operational efficiency and effectiveness, reliability of financial reporting, security of assets, and compliance with laws, policies, and other regulations. (Reskino & Anshori, 2016)

Research conducted by Oguda Ndege et.al. (2015), also Riri Zelmiyanti and Lili Anita (2015), state that internal control as a process carried out by the entity's board of directors, management, and other members are designed to provide adequate assurance regarding the achievement of objectives in the categories of operating effectiveness and efficiency, reliability in financial reporting, and compliance with applicable laws and regulations. So the two studies concluded that internal control has a significant positive effect on fraud prevention. This is reinforced by Susanto Salim's research (2019) which concludes that internal control is the most effective way within the company to minimize or even eliminate the opportunity for company members to commit fraud.

5. Conclusion

The function of financial statements is to provide useful information for potential investors, creditors, and other users to make rational investment decisions, lending, and other similar decisions. Fraud in financial statements will have an impact on decreasing investor confidence and other users of financial statements. Fraud is a process or manipulation that can harm the company. Financial statement fraud can be detected through vertical, horizontal, and ratio analysis. Fraud can be influenced by 3 factors called the Fraud Triangle: pressure, opportunity, and rationalization, so that fraud can be accepted. To prevent fraud in financial statements, preventive action is needed including the company's internal control as well as supervision from investors and creditors through an external audit process.

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