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The Effect of Financial Targets, Financial Stability, and Ineffective Monitoring on Financial Statement Fraud in Indonesian Manufacturing Companies (2020–2023)

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Abstract
This study aims to analyze the influence of financial targets, financial stability, and ineffective supervision on financial statement fraud in manufacturing companies listed on the Indonesia Stock Exchange for the 2020–2023 period. Financial statement fraud was measured using the Beneish M-Score, while independent variables were proxied with Return on Assets (ROA), asset change (ACHANGE), and proportion of independent board of commissioners (BDOUT). The research sample included 88 companies with a total of 352 panel data observations. Data analysis was performed using panel data regression with a random effects (REM) approach through the EViews 13 software. The results showed that financial targets played a significant role in encouraging the fraudulent practice of financial statements, while financial stability and ineffectiveness of supervision were not proven to have a strong influence. These findings confirm that the pressure to achieve profit performance is still the dominant factor in triggering fraud in Indonesia's manufacturing sector, while the effectiveness of formal supervision has not been consistent. The theoretical contribution of this research is to strengthen the pressure dimension in Fraud Hexagon Theory while weakening the empirical evidence on the opportunity dimension. These findings emphasize the need to use more diverse variables in future research to capture the complexity of fraud. Therefore, further research is recommended to add other variables such as audit quality, leverage, and ownership structure to produce a more comprehensive fraud detection model.
Keywords: *financial targets, financial stability, ineffectiveness of supervision, financial statement fraud, Beneish M-Score*

INTRODUCTION

Financial statements have a strategic function as the main communication medium between the company and stakeholders (Battaglia, Ceglia, Calabrese, & Iandolo, 2025; Cardoni & Kiseleva, 2025). Important economic decisions, both internal and external, depend heavily on the reliability and honesty of the information presented in the report (Silitonga, Izzati, Zahrani, & Panggabean, 2025; Srivastava, 2025). However, the complexity of internal pressures and external expectations can encourage management to commit irregularities through fraudulent actions in financial statements (Gita, Anggriani, Alpiansah, Hendri, & Dethan, 2025; Salihu, 2025).

Real cases also reinforce the urgency of research. For example, Sri Rejeki Isman Tbk (SRIL), which defaulted and entered PKPU in 2021, showed great financial pressure and alleged report manipulation practices to maintain the company's financial image. More recently, the eFishery case (2024) came into the public spotlight after the company reported a profit of IDR 261 billion when it actually lost IDR 578 billion, which indicates the practice of overstatement. These two cases show that fraud can occur both in old companies in the manufacturing sector and in modern startups with weak governance (Rahajeng, 2025; Tiesheva, Zhurba, Pynda, Sopilnyk, & Lopatka, 2025).

Globally, the Association of Certified Fraud Examiners (ACFE) Report to the Nations (2022) shows that although financial statement fraud only accounts for 9% of total fraud cases, this type of fraud causes the largest average loss, which is USD 593,000 per case. In Indonesia, the ACFE Indonesia survey (2019) found that financial statement fraud accounted for 9.2% of the total cases with losses reaching Rp 242.26 billion. The Financial Services Authority (OJK, 2023) also highlighted the still weak corporate governance practices in the capital market, especially in the manufacturing sector, which is the sector with the largest number of issuers on the IDX. The data shows that the risk of fraud remains high post-COVID-19 pandemic, especially in capital-intensive sectors such as manufacturing (Ambilkar, Dohale, & Kumar, 2025; Warui, 2025).

Based on this background, this study aims to address three fundamental questions: whether financial targets influence financial statement fraud, whether financial stability affects financial statement fraud, and whether ineffective supervision contributes to financial statement fraud. To answer these questions, this research has three main objectives: to examine and analyze the influence of financial targets on financial statement fraud, to investigate the impact of financial stability on financial statement fraud, and to assess the effect of ineffective supervision on financial statement fraud.

This research is grounded in two main theoretical frameworks. First, Agency Theory, as proposed by Jensen and Meckling (1976), explains the contractual relationship between company owners (principals) and managers (agents). This theory highlights how differences in interests and information asymmetry can lead to agency problems, where managers may engage in behavior that does not align with owners' interests, potentially including financial statement manipulation.

Second, this study employs Fraud Hexagon Theory, developed by Georgios L. Vousinas (2019) as an evolution of previous fraud models (Fitriyani, Gamayuni, & Suhendro, 2024; Safira, 2025). This comprehensive framework identifies six elements that contribute to fraud: Stimulus/Incentive, Capability, Opportunity, Rationalization, Ego, and Collusion. The theory provides a more holistic understanding of the factors that lead individuals to commit fraud (Kolhe & Bhat, 2024; Mandal & S, 2024).

According to the Association of Certified Fraud Examiners (ACFE), financial statement fraud is defined as the deliberate act of issuing false financial statements or misappropriating an entity's financial position by misleading or disregarding material information. To detect financial statement fraud, this study utilizes the Beneish M-Score developed by Messod Beneish (1999). This model employs eight financial ratios specifically designed to capture patterns of accrual-based earnings manipulation, providing a robust methodology for identifying potential fraudulent reporting practices.

RESEARCH METHOD

This research used secondary data obtained from the annual reports and financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2023 period. Data is collected through the official website of the IDX (www.idx.co.id) and the official website of each company.

The research population is all manufacturing companies listed on the IDX for the 2020–2023 period. The sampling technique uses purposive sampling with the following criteria:

1. Manufacturing companies listed on the IDX for the 2020-2023 period
2. Publish financial statements consecutively during the research period
3. Publish financial statements due December 31
4. Using the Rupiah currency consistently

Based on these criteria, a sample of 88 companies was obtained with a total of 352 panel data observations.

Table 1. Sample Selection Process

Sample Criteria	Sum
Manufacturing companies listed on the IDX 2020-2023	216
Not publishing financial statements in a row	(92)
Not publishing full reports as of December 31	(13)
Not using the Rupiah currency consistently	(23)
Total research sample	**88**
Total observations (88 × 4 years)	**352**

Source: Data processed from the financial statements of manufacturing companies listed on the IDX, 2020-2023

Variable Operational Definitions

Table 2. Variable Operationalization

Variable	Definition	Proxy	Scale
Financial Statement Fraud (Y)	Financial statement manipulation	Beneish M-Score	Ratio
Financial Targets (X1)	Company profitability target	ROA = Net Profit / Total Assets	Ratio
Financial Stability (X2)	The condition of the company's asset stability	ACHANGE = (Total Aset_t - Total Aset_t-1) / Total Aset_t-1	Ratio
Ineffectiveness of Supervision (X3)	Effectiveness of the board of commissioners' oversight	BDOUT = Number of Independent Commissioners / Total Commissioners	Ratio

Source: Edited from Beneish (1999), Jensen & Meckling (1976), and Vousinas (2019)

Data Analysis Methods

The data analysis method used panel data regression with the help of EViews 13 software. The regression model used is:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + e$$

Description: Y = Financial Statement Fraud (Beneish M-Score); X1 = Financial Target (ROA); X2 = Financial Stability (ACHANGE); X3 = Supervisory Ineffectiveness (BDOUT); α = constant; β = Regression Coefficient; e = Error term

RESULTS AND DISCUSSION

Descriptive Statistics

Table 3. Descriptive Statistical Analysis

Variable	Mean	Median	Maximum	Minimum
X1 (LENGTH)	0.0375	0.0374	1.1056	-1.0498
X2 (SWAP)	0.0533	0.0195	2.5272	-0.7846
X3 (BDOUT)	0.4204	0.4000	0.7500	0.1667
Y (M-Score)	-3.1287	-3.2388	12.1721	-17.3481

Source: EViews 13 descriptive statistical analysis output, 2024

Hypothesis Test Results

Table 4. Random Effect Model (T-Test) Results

Variable	Coefficient	t-Statistics	Prob.
Constant	-3.3813	-7.4432	0.0000
X1 (LENGTH)	2.9019	3.8429	**0.0001***
X2 (SWAP)	-0.0226	-0.0639	0.9491
X3 (BDOUT)	0.3446	0.3281	0.7430

*Description: * Significant at α = 0.05*

Source: Output regresi data panel EViews 13, 2024

Table 5. Coefficient of Determination

R-squared	0.0415
Adjusted R-squared	**0.033 (3.3%)**
F-statistic	5.0275
Prob(F-statistic)	**0.0020***

Source: Output Regression data panel EViews 13, 2024

The Effect of Financial Targets on Financial Statement Fraud

The results of the study showed that the financial target (ROA) had a significant positive effect on financial statement fraud (coefficient = 2.9019; p-value = 0.0001). This supports H1 and is in line with the agency's theory that the pressure to achieve profit targets can encourage management to manipulate financial statements. These findings are consistent with the research of Meihendri et al. (2022), Rifa et al. (2022), and Irman et al. (2023) who found that financial targets are significant against fraud.

The Effect of Financial Stability on Financial Statement Fraud

Financial stability (ACHANGE) had no significant effect on financial statement fraud (coefficient = -0.0226; p-value = 0.9491). These results do not support H2 and indicate that changes in the company's assets were not the dominant factor in triggering fraud in the study period. This can be explained because during the pandemic and post-pandemic, many companies received fiscal stimulus and credit relaxation so that financial stability pressures do not always have to be realized through report manipulation. These findings are in line with the research of Meihendri et al. (2022) and Achmad et al. (2023) who also found financial stability to be insignificant.

The Effect of Ineffective Supervision on Financial Statement Fraud

Ineffectiveness of supervision (BDOUT) had no significant effect on financial statement fraud in the linear regression model (coefficient = 0.3446; p-value = 0.7430). These results do not support H3 and indicate that the proportion of independent commissioners is merely a formality with no substantive effectiveness. However, in the robustness check using the Probit model, the BDOUT variable was actually significantly positive, indicating that the role of supervision was only seen when fraud actually occurred. These findings are in line with research by Aprilia (2017) and Marjohan (2024) which stated that ineffectiveness of supervision is not always significant.

CONCLUSION

The study investigates how financial targets, financial stability, and ineffective supervision influence financial statement fraud among Indonesian manufacturing firms listed on the IDX from 2020–2023. Findings indicate that higher pressure from profit targets significantly increases fraud risk, while financial stability shows no significant impact, suggesting that asset changes were not the primary fraud trigger during the period. Additionally, supervision's effect appears model-dependent—non-significant in linear regression but significant in the Probit model—implying a conditional role for oversight. The modest Adjusted R^2 of 3.3% signals that fraud is a multidimensional phenomenon requiring additional variables to capture its full complexity. Future research could incorporate governance quality, auditor characteristics, firm size, industry sub-sectors, and cultural or macroeconomic factors to better explain variance in financial statement fraud and to test interaction effects among these determinants.

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