-RESEARCH ARTICLE-

EVALUATING FINANCIAL STABILITY AND GOVERNANCE IN FINANCIAL REPORTING: EVIDENCE FROM CONSUMER GOODS INDUSTRY

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─**Abstract**─

This research adopts the financial statement risk assessment framework to conduct a quantitative evaluation of the probability of financial misrepresentation within the pharmaceutical sector—an industry noted for its stringent regulatory environment and intricate financial arrangements. In response to the persistent challenges of maintaining transparency and precision in financial disclosures, this study explores critical risk determinants: financial stability, external pressures, personal financial incentives, financial targets, industry-specific characteristics, deficiencies in oversight, and rationalisation. Employing a quantitative methodology, the investigation focuses on pharmaceutical manufacturing firms listed on the Indonesia Stock Exchange (IDX) during the period 2019–2022. A purposive sampling technique yielded a final sample comprising 11 firms. Data analysis was executed through multiple linear regression using SPSS version 25, with the t-test applied to assess the statistical relevance of each risk factor's effect on financial statement anomalies, measured via earnings management proxies. The empirical analysis reveals that financial stability, personal financial incentives, and ineffective oversight exert a significant influence on the reliability of financial reports. In contrast, no meaningful statistical association was observed for external pressures, financial performance targets, industry attributes, or rationalisation. These outcomes furnish empirical evidence concerning the integrity of financial disclosures and emphasise the necessity for strengthened governance systems aimed at fostering greater transparency and accountability. This study advances the discourse on operational risk in financial reporting and offers practical implications for regulatory authorities, auditors, and governance professionals.

Keywords: Earnings Management, Financial Manipulation, Corporate Governance, Operational Risk, Indonesia Stock Exchange

INTRODUCTION

Corporate governance is severely threatened by the risk of financial statement fraud, which undermines fiscal stability and erodes investor confidence. Such fraudulent manipulation compromises the reliability of disclosed information, ultimately resulting in misallocation of resources, market inefficiencies, and a significant collapse of trust within financial systems (Wardhana & Usman, 2022). Over the past two decades, financial misrepresentation in accounting has played a pivotal role in numerous corporate failures, prompting the adoption of more stringent auditing protocols by regulatory authorities (Rahman et al., 2020). High-profile financial collapses—such as those of Enron, WorldCom, and Wirecard—have highlighted the grave consequences of deceptive financial disclosures, necessitating thorough academic and regulatory scrutiny. Given the increasing complexity of financial fraud, it is essential for professionals to investigate the factors enabling such misconduct.

The fraud triangle framework, developed by (Cressey, 1952), continues to serve as a foundational model in understanding fraudulent activity, comprising three key elements: pressure, opportunity, and rationalisation. Individuals typically commit fraud due to financial or occupational pressures, insufficient internal controls, and the cognitive justification of their unethical decisions. Empirical research supports the effectiveness of the fraud triangle in diagnosing financial misconduct (Pertiwi & Triyanto, 2020). In response to the evolving nature of fraud, scholars have expanded this model into the fraud pentagon and hexagon by incorporating additional dimensions such as capability, arrogance, and collusion to better address complex fraudulent scenarios (Narsa et al., 2023).

Earnings management entails the deliberate alteration of financial reports to meet investor expectations, secure funding, or achieve performance targets (Akbar et al., 2022). When these practices involve intentional misrepresentation, they transition into fraudulent conduct. Such manipulation is particularly prevalent among financially distressed companies facing pressure from creditors, investors, or operating in volatile industries (Ramdany et al., 2021). Weak internal control systems and inadequate auditing practices are often cited as contributing factors to increased financial fraud (Sari et al., 2022). Empirical data suggest that organisations engaged in complex financial operations or exposed to earnings fluctuations are more vulnerable to manipulation. External pressures, including market expectations and debt burdens, further elevate the risk of inaccurate financial reporting (Artana et al., 2023). Financial instability, along with stringent earnings targets, is frequently identified as a major catalyst for fraudulent activity (Stawati, 2020).

The academic community has increasingly focused on the preventative role of corporate governance in combating fraud. Effective governance structures, including robust internal controls, independent audit committees, and regulatory compliance, are key deterrents against unethical financial behaviour (Wardhana & Usman, 2022). Conversely, inadequate oversight mechanisms often create opportunities for both manipulation and fraudulent actions (Victoria, 2018). Executive-level fraud is often incentivised by remuneration models that link bonuses or personal investments to short-term performance, encouraging the distortion of earnings figures to achieve desired outcomes (Karo-karo, 2022). Those involved in financial misreporting often rely on rationalisation to morally justify their actions. Executives may convince themselves that the manipulation of financial data is justified for the greater good of the company (Narsa et al., 2023). Fraud is sometimes rationalised as a tactical necessity to maintain shareholder trust or operational continuity (Putriyanti & Cahyati, 2020). Organisations now increasingly deploy forensic accounting tools and machine learning technologies, supported by big data, to identify anomalies indicative of fraud (Balcıoğlu, 2024). Although traditional auditing practices have evolved with technological advancements,

these tools have significantly enhanced the ability of regulators and firms to detect and prevent fraudulent activities.

This study investigates how financial stability, external pressures, personal financial incentives, performance targets, industry features, ineffective governance, and rationalisation contribute to earnings management in contemporary financial environments. Drawing on empirical fraud detection evidence and the fraud triangle framework, this research offers a more comprehensive understanding of financial misreporting. It presents original contributions to the field of financial statement fraud, delivering critical insights for investors, regulatory authorities, and executive leaders aiming to reinforce transparency and accountability in financial reporting. The focus lies in identifying the key risk indicators associated with financial reporting fraud, thereby supporting the development of more effective preventative strategies, enhanced governance frameworks, and greater global financial reporting integrity.

LITERATURE REVIEW

Variations in financial statement fraud remain an enduring challenge to effective corporate governance, primarily through the erosion of investor confidence, heightened market volatility, and diminished financial transparency. Scholarly inquiry into this domain persists, as it yields essential insights that assist regulatory agencies in combating financial misconduct. Instances of reported fraud frequently result in confusion among investors and stakeholders, thereby undermining trust in financial markets. Cressey's seminal model has been subsequently extended into the fraud pentagon and hexagon frameworks through the inclusion of factors such as capability, enabling a more comprehensive analysis of fraudulent behaviour patterns (Cressey, 1952). Grounded in empirical inquiry, this study explores financial statement fraud among firms listed on the Indonesian Stock Exchange. The investigation draws on established academic literature, integrating theoretical constructs with empirical findings. The research commences with a critical review of scholarly sources and articulation of the research problem, culminating in an in-depth examination of the topic under consideration.

Theoretical Foundations of Financial Statement Fraud

The conceptual foundation for examining financial statement fraud is grounded in the fraud triangle theory. This model posits that fraudulent acts may emerge when individuals, experiencing financial or professional pressures, identify weaknesses in internal control systems and subsequently justify their behaviour through rationalisation. The manipulation of financial reporting often functions as a mechanism through which firms respond to demands related to financial health, market expectations, and periods of economic uncertainty. Even in circumstances where financial stability exists, firms may inadvertently establish conditions conducive to fraudulent reporting. Financial distress—characterised by high debt obligations and

unmet funding requirements—often compels companies to seek external financing. This situation is especially problematic where internal governance mechanisms are weak, and audit functions are ineffective, forming a critical risk area identified by the fraud triangle (Kagias et al., 2022). Substandard audit quality combined with fragile internal controls significantly amplifies the susceptibility of financial statements to manipulation.

Empirical evidence indicates that companies with elevated debt ratios and insufficient board oversight are more likely to engage in financial statement fraud (Amanamakh, 2024). The root causes of such fraudulent activity are frequently linked to dysfunctional audit committees and deficient internal monitoring frameworks (Kwamboka et al., 2025). In many cases, firms exploit regulatory loopholes to manipulate financial disclosures before the deceit is detected. Rationalisation—the final component of the fraud triangle—plays a pivotal psychological role in facilitating fraud. The human capacity for self-justification allows individuals to rationalise unethical conduct via two principal mechanisms: either by minimising perceived harm or by asserting that exceptional circumstances warrant such behaviour. As outlined in existing research, rationalisation of financial misrepresentation often occurs when organisations adopt short-term measures to preserve financial viability. Both employees and senior executives involved in fraudulent reporting frequently contend that their actions serve the dual purpose of ensuring the organisation's immediate survival and supporting its longer-term strategic objectives (Ergin & Erturan, 2019).

Empirical Evidence on Fraud Triangle and Financial Statement Fraud

A substantial body of empirical research grounded in the fraud triangle framework has established that financial statement fraud is often the consequence of diverse operational determinants. The study conducted by (Istikhoroh et al., 2021) identifies financial distress and the pursuit of advantage as principal drivers perpetuating financial misreporting, positioning these elements as primary enablers within fraudulent practices. Among these determinants, external pressure emerges as a critical factor extensively examined in the context of deceptive financial disclosures. Influences such as heightened regulatory scrutiny, intensified market rivalry, and periods of economic downturn frequently push firms toward manipulative accounting strategies. Empirical analyses focused on detecting fraud through financial indicators have demonstrated that enterprises operating under significant financial strain from stakeholders are more prone to adjusting their financial statements to conform to stakeholder demands. Within the fraud triangle, financial instability plays a foundational role by fostering conditions conducive to unethical financial conduct (Van Driel, 2019).

The Relationship Between Financial Stability and Earnings Management

Firms approaching financial distress frequently engage in earnings management, as sustaining economic stability becomes a critical factor in mitigating the risk of

fraudulent financial reporting. The pressure to maintain financial equilibrium often compels senior executives to alter financial statements in order to present a more favourable economic outlook (Valášková et al., 2021). Instability in financial performance contributes to an increased likelihood of misstatements, particularly among organisations striving to meet stakeholder expectations while preserving investor confidence. Empirical evidence suggests that financial distress—commonly assessed using metrics such as return on assets (ROA) and liquidity ratios—exhibits a positive correlation with earnings manipulation practices (Wisnu & Astuti, 2023). Companies experiencing unstable financial conditions are more inclined to contravene accounting standards in pursuit of enhanced short-term financial outcomes (Hassan et al., 2022).

The Impact of External Pressure on Financial Statement Fraud

Financial organisations face external pressure due to investor demands and intense market competition. Those with high financial commitments and investor scrutiny often resort to earnings manipulation to maintain financial stability (Baskaran et al., 2020). Firms under significant leverage are more likely to commit financial fraud to meet external obligations (Kinyua & Ochieng, 2022). Empirical evidence shows that industry-wide pressures and limited credit access drive financial statement fraud. High external pressure encourages aggressive earnings manipulation, with fraudulent reporting seen as a viable option under such strain (Pangaribuan & Santoso, 2023).

Personal Financial Need and Its Influence on Earnings Management

Executives' personal financial needs often drive them towards fraudulent behaviour. Financial incentives tied to performance targets lead to earnings management for securing compensation (Yahaya, 2022). Research indicates that substantial equity ownership combined with high incentive-based pay contributes to major financial irregularities (Rousseau et al., 2023). Executives under personal financial strain manipulate records, especially when stock performance impacts their assets. Such actions are rationalised as necessary for maintaining financial stability, aligning with the rationalisation element of the fraud triangle model (Yendrawati et al., 2023).

The Role of Financial Targets in Financial Statement Fraud

The establishment of financial targets within a firm can act as an early indicator of potential financial statement fraud. Unrealistically ambitious performance benchmarks often lead organisations to engage in earnings manipulation as a strategy to maintain investor confidence. Empirical findings indicate that firms failing to meet predefined financial goals exhibit a greater propensity for financial misrepresentation (Mulyandani & Rahayu, 2021). Fraudulent financial reporting tends to emerge in such contexts, as financial targets are perceived as instrumental to achieving short-term organisational aims. Consequently, these targets contribute to the pressure component within the fraud

triangle framework, heightening the likelihood of falsified financial disclosures (Subiyanto et al., 2022).

Nature of Industry and Its Effect on Earnings Management

A firm's financial reporting is heavily influenced by the market sector it operates in. Sectors with volatile operations, complex accounting rules, and fluctuating demand are more prone to accrual management (Rahman et al., 2020). The manufacturing industry is particularly high-risk due to cost variability and revenue recognition rules (Eleng et al., 2022). Sectors with inconsistent revenues often manipulate earnings to present stable results. The business sector shapes conditions for potential fraud and rationalises misconduct within the fraud triangle framework. In unstable sectors, financial misstatements are often seen as justified responses to industry-specific challenges (Narsa et al., 2023).

Ineffective Monitoring and Its Relationship with Earnings Management

Insufficient internal control mechanisms and ineffective monitoring frameworks enable the perpetuation of fraudulent financial practices. Firms characterised by poor corporate governance structures, dysfunctional audit committees, and minimal supervisory oversight are particularly susceptible to elevated risks of financial misrepresentation (Sari et al., 2022). Conversely, robust governance arrangements—featuring independent audit committees and stringent internal control protocols—are associated with reduced instances of earnings manipulation (Wardhana & Usman, 2022). The absence of adequate monitoring frameworks fosters environments in which financial statement fraud can flourish. In such contexts, fraudulent practices are more likely to occur, as weak oversight provides the opportunity element essential to fulfilling the fraud triangle conditions (Reurink, 2019).

Rationalization and Its Impact on Financial Misstatements

Rationalisation allows individuals to justify unethical financial behaviour. Managers often misreport finances to aid the company or address economic challenges (Okafor & Egbunike, 2023). Such rationalisation fosters repeated fraud (Schnatterly et al., 2018), as managers believe future performance gains will justify their actions. This supports the fraud triangle theory, where rationalisation is key to financial misconduct (Stawati, 2020). Market forces and poor governance foster fraud, while personal incentives and performance targets raise its likelihood. Executives rationalise manipulation when altering records, reinforcing the fraud triangle's relevance. Future research should explore new industries and unique drivers of financial fraud.

METHODOLOGY

The research methodology employed in this study is quantitative, relying on secondary data analysis. Secondary data refers to information not directly collected by researchers

but sourced through intermediaries. The research process involves the collection, compilation, analysis, and interpretation of existing data. This study examines the elements of pressure, opportunity, reasoning, and influence in financial reporting. The focus of the research is on corporate assets listed on the IDX.

Sample

The sample reflects the characteristics of the population under investigation. A saturation sampling approach was employed in this study. This technique involves selecting a sample as detailed in Table 1 (Bell et al., 2022). The sample consists of 11 manufacturing companies operating within the pharmaceutical sub-sector, specialising in consumer goods, and listed on the IDX between 2019 and 2022.

Table 1: Research Sample

No	Company Name	Code
i	Darya Varia Laboratoria Tbk	DVLA
ii	Indofarma Tbk	INAF
iii	Kimia Farma Tbk	KAEF
iv	Kalbe Farma Tbk	KBLF
v	Merck Indonesia Tbk	BRAND
vi	Phapros Tbk	PEHA
vii	Pyridam Farma Tbk	PYFA
viii	Merck Sharp Dohme Pharma Tbk	SCPI
ix	Herbal Medicine and Pharmaceutical Industry Sido Tbk	SIDO
x	Soho Global Health Tbk	SOHO
xi	Tempo Scan Pacific Tbk	TSPC

Moreover, this study spans a four-year period, covering the years 2019, 2020, 2021, and 2022, resulting in a sample comprising data from 44 companies. The details of the dependent and independent variables are outlined in Table 2.

Table 2: Definitions Operational Variable

Variables	Indicator Measurement	Scale	Source
Earnings Management (Management Profit) (Y)	$DACC_T = (TAC_t / TA_{-1}) - NDA$	Ratio	(Pertiwi & Triyanto, 2020)
Financial Stability (X1)	$ACHANGE = \dfrac{Total\ Aset_1 - Total\ Aset_{t-1}}{Total\ Aset_t}$	Ratio	(Fasieh & Fahrurrozi, 2022)
External Pressure (X2)	$Leverage = \dfrac{Total\ Hutang}{Total\ Aset}$	Ratio	(Pertiwi & Triyanto, 2020)
Personal Financial Need (X3)	$OSHIP = \dfrac{Jumlah\ saham\ yang\ dimiliki\ piha\ internal}{jumlah\ saham\ yang\ beredar}$	Ratio	(Fasieh & Fahrurrozi, 2022)

Table 2 (Continue…….)

Variables	Indicator Measurement	Scale	Source
Target Financial (X4)	Retrun On Asset (ROA) $= \dfrac{\text{Laba Bersih}}{\text{Jumlah Aset}}$	Ratio	(Ramdany et al., 2021)
Nature of Industry (X5)	Receiveble $= \dfrac{\text{Piutang}_t}{\text{Piutang}_{t-1}} - \dfrac{\text{Penjualan}_{-1}}{\text{Penjualan}_{t-1}}$	Ratio	(Kayoi & Fuad, 2019)
In Effective Monitoring (X6)	BDOUT $= \dfrac{\text{Jumlah Dewan Komisiaris Independent}}{\text{Jumlah Dewan Komisiaris}}$	Ratio	(Pertiwi & Triyanto, 2020)
Rationalization (X7)	Code 1 if company do change of auditors, meanwhile If company No do change of auditors then used code 0,	Nominal	(Vaustine et al., 2022)

Data Analysis Techniques

Data analysis was conducted using double regression analysis with the aid of SPSS software.

Descriptive Statistics

Descriptive statistics are used to summarise and characterise the variables in a study. These statistics include metrics such as the minimum and maximum values, mean, and standard deviation (Karo-karo, 2022).

Classical Assumption Tests

To ensure the validity of the regression model, several classical assumption tests were performed. These include:

1. **Normality Test:** This test assesses whether the research data follows a normal distribution. The Kolmogorov-Smirnov test is applied, with data considered normally distributed if the probability value (p) is greater than 0.05 ($p > 0.05$) (Anggarani et al., 2024).
2. **Multicollinearity Test:** This test assesses the dependency among independent variables in the regression model. Multicollinearity is identified if the tolerance value is above 0.10 and the VIF is below 10.00 (Anggarani et al., 2024).
3. **Autocorrelation Test:** This test examines whether residuals from adjacent observations influence one another. The Durbin-Watson test is commonly used to detect autocorrelation in datasets (Anggarani et al., 2024).
4. **Heteroscedasticity Test:** This test verifies that the measurement errors exhibit consistent variation across all observations in the study (Anggarani et al., 2024).

Multiple Linear Regression Analysis

The analysis employs multiple linear regression to examine how various variables influence the dependent outcome. The regression results provide the significance levels

and predictive equations, which can be applied to future scenarios. This study assesses the effect of external pressure, financial stability, ineffective monitoring, personal financial need, industry characteristics, financial targets, and rationalisation on earnings management in Indonesian pharmaceutical manufacturing firms listed on the IDX from 2019 to 2022 (Rahman et al., 2020).

Hypothesis Testing

1. Each independent variable's significance is assessed using the T-test (Partial Significance Test), which measures its effect on the dependent variable. A variable is considered significant if its p-value is below 0.05 and its calculated t-value exceeds the critical t-table value (Stawati, 2020).
2. The adjusted R-Square (R^2) indicates how well the independent variables explain variation in the dependent variable. A higher adjusted R^2 reflects stronger predictive power within the model (Stawati, 2020).

ESTIMATIONS

Analysis Statistics Descriptive

The research employs descriptive statistics—mean, median, mode, and standard deviation—to summarise sample data and highlight characteristics of each variable. Descriptive analysis examines Earnings Management as the dependent variable and the independent variables: Ineffective Monitoring, Financial Target, Rationalisation, Nature of Industry, Personal Financial Need, External Pressure, and Financial Stability. Data from 2019 to 2022 were analysed using IBM SPSS Statistics 25 to ensure accurate and efficient results. Table 3 provides detailed insights into variable characteristics, distribution, and variability over the study period.

Table 3: Statistical Test Results Descriptive

	N	Minimum	Maximum	Means	std. Deviation
Financial Stability	44	-286635088.00	2527158403.00	135335904,2500	415201881,64680
External Pressure	44	8555555.00	943710243,00	381306609,2727	232849901,73231
Personal Financial Need	44	,00	500306588.00	36506860,9318	114020523,01770
Target Finance	44	1.75	279326954.00	72691369,8807	70534770,16100
Nature of Industry	44	-1005935101.00	1494092622.00	-28527311.0455	377695318,64177
Ineffective Monitoring	44	4.00	666666667.00	159090914,0909	208439550,00742
Rationalization Audit Opinion	44	0	1	,50	,506
Management Profit	44	-2133153570,29	5014302438,34	639054166,3409	1303666501,38564
Valid N (Listwise)	44				

Source: Processed data researcher, 2023

The descriptive statistics reveal substantial variability in financial data across the 44 sampled companies. Financial stability ranges from -286,635,088.00 to 2,527,158,403.00, with a mean of 135,335,904.25 and a high standard deviation of 415,201,881.65, indicating wide disparities. External pressure varies from 8,555,555.00 to 943,710,243.00, with a mean of 381,306,609.27 and a standard deviation of 232,849,901.73, reflecting considerable inter-firm differences. Personal financial needs show values between 0.00 and 500,306,588.00, averaging 36,506,860.93 with a standard deviation of 114,020,523.02, suggesting uneven financial requirements. Financial targets range from 1.75 to 279,326,954.00, with a mean of 72,691,369.88 and a standard deviation of 70,534,770.16, highlighting varied goal expectations.

The Nature of Industry variable spans -1,005,935,101.00 to 1,494,092,622.00, with a mean indicating negative performance and a standard deviation of 377,695,318.64, suggesting differing sectoral outcomes. Ineffective monitoring values range from 4.00 to 666,666,667.00, with an average of 159,090,914.09 and a standard deviation of 208,439,550.01, implying vast differences in oversight quality. The rationalisation variable (audit opinion) is binary (0–1), with a balanced mean of 0.50 and a standard deviation of 0.506. Earnings management ranges from -2,133,153,570.29 to 5,014,302,438.34, with a mean of 639,054,166.34 and a standard deviation of 1,303,666,501.39, reflecting extreme profit and loss variation among firms.

Class Assumption Test

The normality test results, as shown in Table 4, indicate that the Kolmogorov-Smirnov test produced an Asymp. Sig. (2-tailed) value of 0.200. This result suggests that the residuals in the regression model follow a normal distribution, as the Asymp. Sig. (2-tailed) value is greater than 0.05.

Table 4: One-Sample Kolmogroy -Smirnov Test

		Unstandardized Residuals
N		44
Normal Parameters [a,b]	**Means**	-0.0000001
	std. Deviation	1509475821.74805360
Most Extreme Differences	**Absolute**	0.096
	Positive	0.074
	Negative	-0.096
Test Statistics		0.096
Asymp. Sig. (2-tailed)		0.200c [,d]
a. Test Distribution is Normal.		
b. Calculated from Data.		
c. Lilliefors Significance Correction.		
d. This is a Lower Bound of the True Significance.		

Source: Data processed by SPSS 25 (2023)

Table 5 presents the results of the multicollinearity test, revealing notable correlations between the independent variables in the regression model. The tolerance values for all independent variables range from 0.760 to 0.920, while the Variance Inflation Factor (VIF) values vary between 1.087 and 1.316. In line with theoretical guidelines, the absence of multicollinearity is confirmed, as all tolerance values exceed 0.10 and the VIF values remain below 10. These acceptable tolerances and VIF values suggest minimal correlation among the predictors, thereby reinforcing the robustness of the regression model. Financial stability exhibits a low inter-variable correlation, with a tolerance value of 0.760 and a VIF of 1.316. The VIF analysis further supports the conclusion that multicollinearity is not present. The findings indicate that each variable provides distinct information, allowing for a valid assessment of their independent effects on management profit.

Table 5: Multicollinearity Test

Coefficients [a]			
Model		**Collinearity Statistics**	
		Tolerance	**VIF**
1	(Constant)		
	Financial Stability	0.760	1.316
	External Pressure	0.800	1.251
	Personal Financial Need	0.910	1.099
	Target Finance	0.828	1.208
	Nature of Industry	0.920	1.087
	Ineffective Monitoring	0.889	1.125
	Rationalization	0.805	1.241
a. Dependent Variable: Management Profit			

Source: Data processed by SPSS 25 (2023)

The autocorrelation test, using the Durbin-Watson statistic reported as 1.245 (Table 6), indicates no significant autocorrelation, as it falls within the acceptable range of -2 to 2. The model shows a strong positive correlation between the independent variables and earnings management, with an R-value of 0.815. The R Square value of 0.665 suggests that 66.5% of the variance in earnings management is explained by the model. The adjusted R Square of 0.600 confirms solid predictive strength, despite a slight reduction due to model complexity.

Table 6: Autocorrelation Test

Summary Model [b]					
Model	**R**	**R Square**	**Adjusted R Square**	**std. Error of the Estimate**	**Durbin-Watson**
1	0. 815	0.665	0.600	824857908,75276	1.245
a. Predictors: (Constant), Rationalization Audit Opinion, Financial Stability, Personal Financial Need, External Pressure, Nature of Industry, Financial Targets, Ineffective Monitoring.					
b. Dependent Variable: Management Profit					

Source: Processed with SPSS 25 (2023)

Heteroscedasticity Test

The absence of heteroscedasticity is evident in Figure 1, where the scatter diagram shows no discernible pattern.
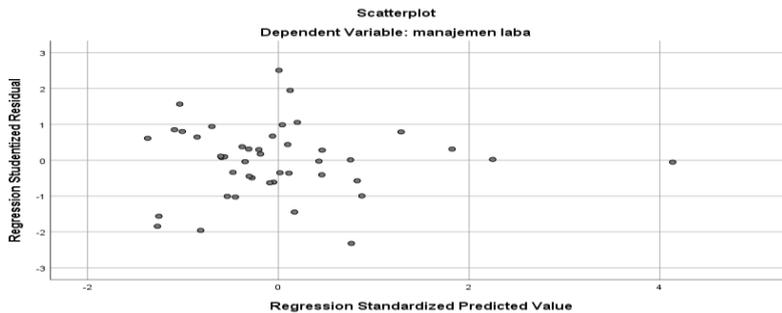

Figure 1: Scattered Diagram
Source: Processed with SPSS 25 (2023)

This observation satisfies the assumption that heteroscedasticity is not present in the model. Table 7 presents the multiple linear regression results assessing management profit dependency on several independent variables. The unstandardised β coefficients show that financial stability positively affects management profit (β = 1.948, SE = 0.348). External pressure also has a positive effect (β = 1.112), but its higher standard error (SE = 0.604) reflects reduced estimation accuracy. Personal financial need has the strongest influence (β = 4.301, SE = 1.156), highlighting its significant role in driving profit-related decisions. Financial targets positively impact profit (β = 2.792), though with low precision (SE = 1.960). The nature of the industry shows a weak negative relationship (β = -0.334, SE = 0.347), suggesting a slight but statistically uncertain impact on profit.

Table 7: Multiple Linear Regression Analysis

Coefficients [a]		
Model	**Unstandardized Coefficients**	
	B	**std. Error**
1 (Constant)	-973956687,537	341562501,740
Financial Stability	1.948	0.348
External Pressure	1.112	0.604
Personal Financial Need	4.301	1.156
Target Finance	2.792	1.960
Nature of Industry	-0.334	0.347
Ineffective Monitoring	1.800	0.640
Rationalization Audit Opinion	538617219,590	277108973,257
a. Dependent Variable: Management Profit		

Source: Processed with SPSS 25 (2023)

Ineffective monitoring shows a positive coefficient of 1.800 with a standard error of 0.640, suggesting that weaker oversight tends to increase management profit. Lastly, rationalization in audit opinions has a significant positive coefficient of 538,617,219.59, though accompanied by a high standard error of 277,108,973.26. This indicates that while rationalisation in audit opinions may substantially affect management profit, the considerable variability suggests that its impact is inconsistent across companies. Management profit is positively influenced by personal financial need, ineffective monitoring, financial targets, external pressure, and financial stability, according to the regression results. Conversely, the nature of the industry has a slight negative effect. Rationalisation in audit opinions exerts the most substantial impact. The model implies that financial management decisions are pivotal in shaping management profit, although some variables exhibit significant variability, warranting further analysis.

Table 8 presents the t-test results used to evaluate the partial significance of each independent variable on earnings management. Financial Stability exhibits a t-value of 5.605, which exceeds the critical threshold of 2.028, and its p-value (0.000) is well below the 0.1 significance level. This confirms that Financial Stability has a statistically significant positive impact on earnings management, leading to the rejection of the null hypothesis (H_0) and the acceptance of the alternative hypothesis (H_1). External Pressure, with a t-value of 1.842, falls short of the critical value (2.028), although its significance level (0.074) is below 0.1. While this suggests a marginal statistical effect, it does not meet the threshold for rejecting H_0, indicating that external pressure does not exert a significant partial influence on earnings management. In contrast, Personal Financial Need records a t-value of 3.719, exceeding the critical value, with a p-value of 0.001—well below 0.1. This result supports the conclusion that personal financial pressures significantly influence earnings management behaviour. The null hypothesis is therefore rejected in favour of H_1, reinforcing the notion that insider financial motivations play a key role in financial manipulation practices.

Table 8: Hypothesis Testing

	Coefficients a					
	Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**std. Error**	**Betas**		
1	(Constant)	-973956687,537	341562501,740		-2.851	0.007
	Financial Stability	10948	0.348	0.620	5.605	0.000
	External Pressure	1.112	0.604	0.199	1.842	0.074
	Personal Financial need	4.301	1.156	0.376	3.719	0.001
	Target Finance	2.792	1.960	0.151	1.424	0.163
	Nature of Industry	-0.334	0.347	-0.097	-0.963	0.342
	Ineffective Monitoring	1.800	0.640	0.288	2.812	0.008
	Rationalization	538617219,590	277108973,257	0.209	1.944	0.060
a. Dependent Variable: Management Profit						

Source: Processed data using SPSS 25 (2023)

The t-value for Financial Target is 1.424, which does not exceed the critical value of 2.028, and its significance level is 0.163. This indicates no significant effect of financial targets on earnings management, so H_0 is accepted and H_1 rejected. Similarly, Nature of Industry shows a t-value of -0.097, below the critical threshold, with a significance of 0.342, confirming that industry characteristics do not significantly impact earnings management; thus, H_0 is accepted. Ineffective Monitoring records a t-value of 2.812, exceeding 2.028, with a significance of 0.008, supporting rejection of H_0 and acceptance of H_1, showing it significantly influences earnings management. Although Rationalization's t-value (1.944) is slightly below 2.028, its significance (0.060) under 0.1 suggests a marginally significant impact. The R-squared value indicates that the independent variables account for 66.5% (0.665) of the variation in proxy financial statement fraud activity experienced by management profit, as shown in Table 9.

Table 9: Coefficient Test Determination (R^2)

Summary Model [b]					
Model	**R**	**R Square**	**Adjusted R Square**	**std. Error of the Estimate**	**Durbin-Watson**
1	,815a	,665	,600	824857908,75276	1.245
a. Predictors: (Constant), Rationalization Audit Opinion, Financial Stability, Personal Financial Need, External Pressure, Nature of Industry, Financial Targets, Ineffective Monitoring.					
b. Dependent Variable: Management Profit					

Source: Processed data using SPS25 (2023)

CONCLUSION AND DISCUSSION

The findings indicate that financial stability critically influences the extent of financial misreporting, as financially unstable firms tend to manipulate earnings to maintain market confidence. External pressures from competitors, investors, and creditors, particularly in organizations burdened with substantial debt and stringent financial covenants, significantly contribute to fraudulent behaviour. Financial targets, especially those directly affecting business owners through stock ownership or performance-based compensation, emerge as the primary drivers of earnings manipulation. Executives rationalize such behaviour as a means to safeguard their financial interests, establishing a strong link between personal financial needs and fraud occurrence. This underscores the necessity for robust monitoring of incentive systems to mitigate fraudulent activities. The study supports the fraud triangle framework by demonstrating how economic pressures create conducive environments for financial misreporting. Fraud risks notably escalate within manufacturing firms operating in cyclical, revenue-volatile industries with complex cost structures, suggesting that financial statements in such sectors warrant heightened regulatory scrutiny and audit rigor.

From a regulatory perspective, the study advocates for strengthened corporate

governance, enhanced financial oversight, and improved audit quality to reduce fraud risks. The implementation of stringent reporting standards and greater transparency are imperative to curtail earnings manipulation. Furthermore, integrating artificial intelligence-driven predictive fraud detection systems with forensic accounting protocols is recommended as a proactive fraud prevention measure. Overall, financial statement fraud stems primarily from aggressive financial pressures, unstable business conditions, and deficient governance coupled with managerial rationalizations. Future research should explore the impact of technological advancements, evolving legal frameworks, and the increased digitization of financial systems on fraud dynamics. Ultimately, preventive fraud strategies, in collaboration with regulatory bodies, are essential to establish transparent, reliable financial reporting frameworks underpinned by trustworthy controls.

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