



**The Phenomenon of Fraud in Financial Reporting:
Impact on the Quality of Financial Reporting
Is it True that Managerial Overconfidence can Moderate it?**

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ABSTRAK

Studi ini bertujuan untuk menguji dan menganalisis pengaruh kecurangan dalam pelaporan keuangan terhadap kualitas pelaporan keuangan dengan *managerial overconfidence* sebagai pemoderasi. Sampel studi ini menggunakan industri sub sektor makanan dan minuman sesuai dengan fenomena dan metode pengambilan sampel menggunakan *purposive sampling*, sehingga studi ini memperoleh 12 emiten selama tahun 2016-2020, sehingga total observasi sebanyak 48 observasi. Studi ini menggunakan pendekatan data panel untuk menguji hipotesis dengan bantuan *evIEWS* versi 11. Hasil studi ini menemukan bahwa kecurangan dalam pelaporan keuangan berpengaruh negatif dan signifikan terhadap kualitas pelaporan keuangan, dan *manager overconfidence* mengurangi pengaruh kecurangan dalam pelaporan keuangan terhadap kualitas pelaporan keuangan. Implikasi penting dari studi ini adalah kapabilitas dan arogansi manajer dapat berdampak negatif terhadap perusahaan karena dapat mencerminkan *overconfidence* manajer dalam mengelola perusahaan yang berdampak pada kecurangan dalam pelaporan keuangan. Akibatnya, kualitas pelaporan keuangan menjadi rendah.

Kata kunci: Fraud in financial reporting, managerial overconfidence, quality of financial reporting

ABSTRACT

This study aims to examine and analyze the effect of fraud in financial reporting on the quality of financial reporting with managerial overconfidence as moderating. The sample of this study uses the food and beverages sub-sector industry in accordance with the phenomenon and sampling method using purposive sampling, so that this study obtains 12 issuers during 2016-2020, so that the total observations are 48 observations. This study uses a panel data approach to test the hypotheses with the help of *evIEWS* version 11. The results of this study find that fraud in financial reporting has a negative and significant effect on quality of financial reporting, and manager overconfidence reduces the effect of fraud in financial reporting on quality of financial reporting. An important implication of this study is that the capabilities and arrogance of managers can have a negative impact on the company because it can reflect the manager's overconfidence in managing the company which has an impact on fraud in financial reporting. As a result, the quality of financial reporting is low.

Key words: Fraud in financial reporting, managerial overconfidence, quality of financial reporting

1. INTRODUCTION

Prior studies only focused on the effect of fraud in financial reporting on firm value (Elviani *et al.*, 2020), profitability on fraud in financial reporting (Milasari & Ratmono, 2019; Nugroho *et al.*, 2018; Arifin *et al.*, 2016), earnings management on fraud in financial reporting (Kurniawan *et al.*, 2020; Ramirez-Orellana *et al.*, 2017), fraud triangle on fraud in financial reporting (Andriani, 2019; Nuryuliza & Triyanto, 2019; Novira *et al.*, 2018; Pasaribu & Kharisma, 2018; Widarti, 2015), fraud diamond on fraud in financial reporting (Ayuningrum *et al.*, 2021; Prakoso & Setiyorini, 2021; Primastiwi *et al.*, 2021; Fadly *et al.*, 2020; Farizi *et al.*, 2020; Melati *et al.*, 2020; Ramadhani & Nurbaiti, 2020; Sari & Lestari, 2020; Purnama & Suryani, 2019;), fraud pentagon against fraudulent financial reporting (Natalia *et al.*, 2021; Mintara & Hapsari, 2021; Purwaningtyas & Ayem, 2021 ; Jaunanda *et al.*, 2020; Sapulete & Risakotta, 2020; Farmashinta & Yudowati, 2019; Damayanti *et al.*, 2017), and the fraud hexagon on fraud in financial reporting (Aviantara *et al.*, 2021; Larum *et al.*, 2021; Mukaromah & Budiwitjaksono, 2021; Sari & Nugroho, 2020).

There are not enough studies showing fraud in financial reporting affects the quality of financial reporting, so this study is important to do with the aim of filling the gaps in prior studies. This study has strong relevance to the study of Elviani *et al.* (2020) that is, the study uses firm value as the dependent variable, while this study uses the earnings quality variable as the dependent variable. Another motivation for this study is supported by the discovery of the fraud phenomenon that occurred at PT. Tiga Pilar Sejahtera, Tbk in 2017 which is still an interesting phenomenon to be investigated further because the case will be tried in 2021. The fraud phenomenon is related to six affiliated distributor companies which are written to be third parties, and the existence of inflated receivables with a value of Rp1,4 trillion and it is suspected that there was a flow of funds from the company worth Rp1,78 trillion to management through several schemes such as disbursement of funds from several banks through time deposits, bank transfers, and others (Nasional.kontan.co.id).

The American Institute Certified Public Accountant (AICPA, 2011) explains that fraud in financial reporting is a deliberate act that results in a material misstatement in the financial statements that are the subject of the audit. Misstatements arising from fraud in financial statements are intentional misstatements or omissions of amounts or disclosures in financial statements designed to deceive financial statement users. This condition is evidenced by the fact that the financial statements are not presented in all material respects in accordance with generally accepted accounting principles. Misstatements in financial statements can result from fraud or error. AICPA (2011) explains that the factor that distinguishes the two is the underlying action that results in

intentional or unintentional misstatements of financial statements. According to the AICPA (2011), fraud in financial reporting is carried out through (a) manipulation, falsification, or alteration of accounting records or supporting documents from which financial statements are prepared, (b) misrepresentation or intentional omission of financial statements, transactions, or other important information, and (c) the intentional application of accounting principles regarding the amount, classification, presentation or disclosure.

The fraud that occurs causes the published information to be biased. One of the important information needed by users of financial statements is profit information. Kurniawan *et al.* (2020) explains that earnings information is used for internal decision making, assessing performance, determining manager compensation, predicting profits and estimating risk in investment or credit. Profit information bias reflects that earnings are not qualified in decision making. Dechow and Dichev (2002) explain that earnings quality is met when it has three important characteristics, namely (1) being able to accurately show the company's current operational performance, (2) being able to provide information related to good indicators in assessing company performance in the future, and (3) can be used as an appropriate measure in assessing the company's performance. This condition shows that the importance of quality earnings in decision making.

Fraud that occurs in financial reporting has a negative impact on earnings quality, which can be motivated by managerial overconfidence in managing the company. Managerial overconfidence is the tendency of individuals to believe that their level of knowledge, ability, and accuracy of information is superior to other parties (Bhandari & Deaves, 2006). This condition indicates that individuals have an excessive level of trust in the information they have (Stenberg, 2008). Trianita & Basuki (2020) explained that overconfidence shows a tendency to express excessive trust from individuals regarding their abilities. In addition, Bazerman & Moore (2009) explain that individuals who have overconfidence overestimate the accuracy of their knowledge which causes them to be overly optimistic about their expectations of achieving the desired results.

The important implications of managerial overconfidence on the quality of financial reporting can be viewed from two sides, namely the positive and negative sides. The positive side of managerial overconfidence is considered to be more effective in taking advantage of growth opportunities to increase company profits, so that profits are higher because managers tend to dare to take risks and invest more in research and development activities that can generate innovation (Munizu & Hamid, 2018; Hirshleifer *et al.*, 2012; Graham *et al.*, 2010). However, when viewed on the negative side, managers who have overconfidence tend to exaggerate their knowledge and skills, underestimate risks, and consider themselves capable of controlling every event and problem that occurs in the company (Fallah *et al.*, 2010). This condition of course can affect the quality of the company's earnings because the company's risk is considered to be overcome by managers.

Based on the description of the background, this study aims to examine and analyze the effect of fraudulent financial reporting on the quality of financial reporting which is moderated by managerial overconfidence. The importance of the involvement of managerial overconfidence in influencing fraudulent financial reporting on earnings quality because it is considered a double-edged sword. That is, managerial overconfidence can improve earnings quality, but can also reduce earnings quality depending on the nature of managers in making decisions, namely, risk takers or risk

averse. This condition is also supported by some previous literature that is relevant to this study that managers' overconfidence can increase firm value (Trianita & Basuki, 2020; Salehi & Moghedan, 2019), as well as reduce firm value (Park *et al.*, 2020; Dashtbayaz & Mohammadi, 2016; Kasiani *et al.*, 2015). In this context, firm value reflects the good or bad quality of earnings reported by the company's management.

2. THEORITICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

Theory of Fraud

Fraud theory has undergone significant development in various previous study literatures. Various previous studies have used fraud theory to justify real phenomena that occur in the organizational environment, both public and private sector organizations. The development of the theory of fraud stems from the discovery of three important elements that trigger individuals to commit fraud, namely pressure, opportunity, and rationalization (Cressey, 1953). This theory then develops to produce six important elements that are the reasons for fraud. Vousinas (2019) explains that the six elements are pressure, opportunity, rationalization, capability, ego, and collusion.

In this context, the focus of this study is on the elements of capability and ego or arrogance as triggers for fraud, so the relevance of the theory used in this study is the diamond, pentagon, and hexagon theory. Based on these three theories, capability is defined as how much power and capacity a person has to commit fraud in the company environment (Sari & Nugroho, 2020). Arrogance is an attitude of superiority or greed from people who believe that internal control does not apply personally (Crowe, 2012).

Fraud in Financial Reporting and Quality of Financial Reporting

Capability and ego or arrogance are important elements of fraudulent financial reporting. Both of these elements come from within the manager to commit fraudulent financial reporting. The fraud that occurs causes the published information to be biased. One of the important information needed by users of financial statements is profit information. Kurniawan *et al.* (2020) explains that earnings information is used for internal decision making, assessing performance, determining manager compensation, predicting profits and estimating risk in investment or credit. Profit information bias reflects that earnings are not qualified in decision making.

Earnings quality is one of the important aspects needed by stakeholders to evaluate the company's financial health. Menicucci (2020) explains that earnings quality is defined in accounting studies in two different perspectives, namely the decision usefulness perspective and the economic-based perspective. The perspective of decision usefulness relates to profit figures that are useful for decision-making purposes. In this context, earnings quality is considered high if earnings figures are useful for decision-making purposes.

Dechow & Schrand (2004) explain that the analysis tends to measure earnings quality when earnings figures accurately reflect the company's current operating performance, a good indicator of future operating performance, and is a good indicator to assess the current stock price that reflects the company's value. On the other hand, in an economic-based perspective, earnings quality is high when earnings are easily converted into cash flows and reflect the real performance of the company's management. The description shows that the hypotheses proposed in this study are as follows.

H₁: Fraud in financial reporting has a negative effect on quality of financial reporting

Fraud in Financial Reporting, Managerial Overconfidence, and Quality of Financial Reporting

Managers who consider themselves to have the capability and arrogance will tend to commit fraud in financial statements. This condition is explained in the theory of diamond, pentagon, and hexagon. Individuals who commit fraud will use their abilities to support the fraud based on arrogance that they have the ability and underestimate the company's risk because they are considered to have more information than other parties. These two elements trigger managers to experience overconfidence. Trianita & Basuki (2020) explained that overconfidence shows a tendency to express excessive trust from individuals regarding their abilities. In addition, Bazerman & Moore (2009) explain that individuals who have overconfidence overestimate the accuracy of their knowledge which causes them to be overly optimistic about their expectations of achieving the desired results.

There are two perspectives of managers who experience overconfidence. First, managerial overconfidence is considered more effective in taking advantage of growth opportunities to increase company profits, resulting in higher profits because managers tend to be willing to take risks and invest more in research and development activities that can generate innovation (Munizu & Hamid, 2018; Hirshleifer *et al.*, 2012; Graham *et al.*, 2010). Second, managers who have overconfidence tend to exaggerate their knowledge and skills, underestimate risks, and consider themselves capable of controlling every event and problem that occurs in the company (Fallah *et al.*, 2010). Both of these perspectives reflect the nature of managers including risk takers or risk averse. Therefore, this study argues that managers who are risk takers will dare to take risks by taking advantage of growth opportunities to improve company performance, so that earnings quality will be higher. In contrast, managers who are risk averse tend to underestimate risk and assume that the company's risk can be overcome by it. The description shows that the hypotheses proposed in this study are as follows.

H₂: Managerial overconfidence has a moderate effect on the relation of fraud in financial reporting and quality of financial reporting

3. RESEARCH METHOD

This study uses a sample of the food and beverages sub-sector industry during 2016-2020 to test the hypothesis using the purposive sampling method. The sampling criteria are (a) companies that are included in the food and beverages sub-sector during the 2016-2020 period, (b) companies that do not experience losses, (c) companies report financial statements in rupiah currency, and (d) financial statements that are reported annually. December 31st. The results of this study sample selection process are as follows.

Table 1
Sample Selection Process

No.	Kriteria	Jumlah
1.	Food and beverages sub-sector companies during 2016-2020.	27
2.	The company suffers a loss	(15)
3.	The company does not report financial statements in rupiah currency	0
4.	Financial reports as of December 31	0
Number of samples		12
Number of observations (12 X 2016-2020)		48

This study resulted in a final sample of 12 companies with 48 sample observations during 2016-2020. The number of 48 sample observations is because this study measures the quality of financial reporting using year $t+1$, so that 60 observations become 48 observations.

This study uses operational definitions and measurement of variables to explain variables. The following is a description of the operational definition and measurement of variables.

a. Fraud in Financial Reporting

The American Institute Certified Public Accountant (AICPA, 2011) explains that fraud in financial reporting is a deliberate act that results in a material misstatement in the financial statements that are the subject of the audit. The measurement of financial reporting fraud uses the Beneish Model (1999) and has been used by Warshavsky (2012) as follows.

1. Days' Sales in Receivables Index (DSRI)

Measures the ratio of the day that sales are in accounts receivable, and benchmarks this ratio against the prior year.

$$DSRI = \frac{\frac{Account\ Receivable\ (cy)}{Sales\ (cy)}}{\frac{Account\ Receivable\ (py)}{Sales\ (py)}}$$

2. Gross Margin Index (GMI)

Measures the ratio of a company's prior year's gross margin to the current year's gross margin.

$$GMI = \frac{\frac{Sales\ (py) - COGS\ (py)}{Sales\ (py)}}{\frac{Sales\ (cy) - COGS\ (cy)}{Sales\ (cy)}}$$

3. Asset Quality Index (AQI)

Measures the quality of a company's assets by calculating the ratio of non-current assets, other than plant, property and equipment (PPE), to total assets.

$$AQI = \frac{\frac{1 - (Current\ Assets\ (cy) + PPE\ (cy))}{Total\ assets\ (cy)}}{\frac{1 - (Current\ Assets\ (py) + PPE\ (py))}{Total\ assets\ (py)}}$$

4. Sales Growth Index (SGI)

Sales growth itself is not indicative of earnings manipulation, however, growth companies are more likely to commit earnings manipulation.

$$SGI = \frac{Sales\ (cy)}{Sales\ (py)}$$

5. Depreciation Index (DEPI)

A DEPI greater than 1.0 may be an indication of an upward revision of the estimated lives of a company's property, plant and equipment, which would increase its income

$$DEPI = \frac{\frac{\text{Depreciation Expense (py)}}{\text{Depreciation Expense (py)+PPE (py)}}}{\frac{\text{Depreciation Expense (cy)}}{\text{Depreciation Expense (cy)+PPE (cy)}}$$

6. Sales, General and Administrative Expenses Index (SGAI)

Measures the ratio of a company's SGAI to sales.

$$SGAI = \frac{\frac{\text{Sales, general and Administrative Expenses (cy)}}{\text{Sales (cy)}}}{\frac{\text{Sales, general and Administrative Expenses (py)}}{\text{Sales (py)}}$$

7. Total Accrual to Total Assets Index (TATA)

Measures the ratio of a company's operating income minus cash flow from operation to total assets.

$$TATA = \frac{\text{Operating Income} - \text{Cash Flow from Operating (cy)}}{\text{Total Assets (cy)}}$$

8. Leverage Index (LVGI)

Measures the ratio of a company's total debt to total assets.

$$LVGI = \frac{\frac{\text{Long Ter, Debt (cy)+Current Liabilities (cy)}}{\text{Total Assets (cy)}}}{\frac{\text{Long Ter, Debt (py)+Current Liabilities (py)}}{\text{Total Assets (py)}}$$

Although each of these elements can be identified to explain each of these measurements, the overall Beneish Model index can be formulated as follows:

$$M = -4,84 + (0,92 \cdot DSRI) + (0,528 \cdot GMI) + (0,404 \cdot AQI) + (0,892 \cdot SGI) + (0,115 \cdot DEPI) - (0,172 \cdot SGAI) + (4,679 \cdot TATA) - (0,327 \cdot LVGI)$$

If the M score is greater than -2,22 indicates that the potential financial statements have been manipulated, on the contrary if the company's M score is less than -2,22 indicates that the company does not manipulate earnings.

b. Managerial Overconfidence

Managerial overconfidence is the tendency of individuals to believe that their level of knowledge, ability, and accuracy of information is superior to other parties (Bhandari & Deaves, 2006). The measurement of managerial overconfidence adapts the study of Kouaib & Jarboui, 2017) as follows.

$$\text{Sales growth} = a + b_1 \text{asset growth} + e$$

The residual value of the results of this regression shows the tendency of overconfidence owned by the manager.

c. Quality of Financial Reporting

Kormendi & Lipe (1987) and Richardson (2006) explain that the quality of financial reporting is the company's ability to maintain profits in the long term or by having persistent earnings. The measurement uses operating income to total assets (OITA) which is a comparison between operating profit and total assets. Measurement of financial reporting quality adapts the study of Ye *et al.* (2010) as follows.

$$OITA_{t+1} = a + b_1OITA_t + e$$

d. Control Variables

This study uses control variables to control the model, so that robust results are obtained. The control variables used in this study are asset growth and debt to asset ratio (DAR).

Panel data approach is used in this study to test the hypothesis. Panel data does not require testing of classical assumptions in their entirety. Only two classical assumption tests will be carried out in this study, namely multicollinearity and heteroscedasticity tests. Furthermore, hypothesis testing uses the rules of Baron & Kenny (1986) by separating the main effect test and the moderating effect test.

4. DATA ANALYSIS AND DISCUSSION

The purpose of descriptive statistics is to provide an explanation of the minimum, maximum, mean, and standard deviation values. The descriptive statistics display is as follows.

Table 2
Descriptive Statistics

Variable	Obs.	Min.	Max.	Mean	Std. dev.
OITA _{t+1}	48	0,0237	0,5786	0,1493	0,1084
OITA _t	48	0,0237	0,5802	0,1625	0,1262
OVER _t	48	-0,5383	0,3065	0,0001	0,1273
OITA _t *OVER _t	48	-0,1481	0,1687	0,0016	0,0366
ASEG _t	48	-0,8137	5,8175	0,2012	0,8496
DAR _t	48	0,0931	0,6392	0,3978	0,1608

This study uses 48 sample observations to test the hypothesis. Based on these 48 observations, it was found that the minimum value of financial reporting quality_{t+1} is the same as financial reporting quality_t, namely, 0,0237. This value is owned by PT. Sekar Bumi, Tbk and the maximum value of the quality of financial reporting_{t+1} that is, 0,5786 is owned by PT. Multi Bintang Indonesia, Tbk, while the quality of financial reporting t namely, 0,5802 is also owned by PT. Multi Bintang Indonesia, Tbk. On average, the quality of financial reporting_{t+1} 0,1493 is lower than the quality of financial reporting_t 0,1625.

The minimum value of managerial overconfidence, ie, -0,5383 is owned by PT. Delta Djakarta, Tbk. This value indicates that the manager has low overconfidence in the company, while the maximum managerial overconfidence value of 0,3065 is owned by PT. Multi Bintang Indonesia, Tbk. This value shows the high overconfidence of managers in the company. On average, the manager's overconfidence, example, 0,0001 indicates that the manager is not overconfidence.

Table 3
Panel Data Regression Model Determination Test Results

Description	Main Effect	Moderating Effect
Chow		
Cross-section F	0,1561	0,2100
Konklusi	Common	Common
Uji Lagrange Multiplier		
Cross-section (Breusch-Pagan)	0,7322	0,8969
Konklusi	Common	Common
Uji Hausman		
Cross-section random	1,0000	1,0000

Conclusion	Random	Random
Konklusi Akhir	Common	Common

This study found that the results of the main effect and moderating effect for the Chow test are common effects, lagrange multiplier is common effect, and hausman is random effect. This condition indicates that the determination of the best model to test the hypothesis is the common effect model.

Table 4
Multicollinearity Test of Main Effect

Variables	1	2	3	4	5	6
OITA _{it+1} (1)	1,0000					
OITA _{it} (2)	0,4973	1,0000				
FRAUD _{it} (3)	0,0141	0,1156	1,0000			
OITA _{it} *FRAUD _{it} (4)	0,1167	0,6626	0,6698	1,0000		
ASEG _{it} (5)	0,4711	-0,1463	0,2336	0,0462	1,0000	
DAR _{it} (6)	-0,4252	-0,0659	0,1524	0,0919	-0,2993	1,0000

This study found that overall there was no high correlation between the variables in the main effect test. The high correlation value in this study occurs between fraudulent financial reporting and the interaction between the quality of financial reporting in year t and fraudulent financial reporting (0,6698 < 0,90). This condition indicates that there is no multicollinearity in the main effects model.

Table 5
Multicollinearity Test of Moderating Effect

Variables	1	2	3	4	5	6	7	8	9
OITA _{it+1} (1)	1,0000								
OITA _{it} (2)	0,4973	1,0000							
FRAUD _{it} (3)	0,0141	0,1156	1,0000						
OITA _{it} *FRAUD _{it} (4)	0,1167	0,6626	0,6698	1,0000					
OVER _{it} (5)	-0,1449	0,1056	0,0753	0,1163	1,0000				
OITA _{it} *OVER _{it} (6)	-0,0669	0,3487	0,0654	0,3163	0,8668	1,0000			
OITA _{it} *FRAUD _{it} * OVER _{it} (7)	-0,1312	0,3095	0,0609	0,3258	0,7608	0,9566	1,0000		
ASEG _{it} (8)	0,4711	-0,1463	0,2336	0,0462	0,0001	-0,0301	-0,0193	1,0000	
DAR _{it} (9)	-0,4252	-0,0659	0,1524	0,0919	0,3629	0,4058	0,3679	-0,2993	1,0000

This study found that overall there was no high correlation between the variables in the moderating effect test, except between the interaction of financial reporting quality in year t and managerial overconfidence with interactions between financial reporting quality in year t, fraudulent financial reporting, and managerial overconfidence (0,9566 > 0,90). However, the moderation effect model is still robust, it's just that the model has a large variance and covariance (Gujarati & Porter, 2009; Widarjono, 2019).

Table 6
Hypotheses Test

Independent Variables	Sign	Dependent Variables: OITA _{it+1} Main Effect Common Effect Model			Dependent Variables: OITA _{it+1} Moderating Effect Common Effect Model		
		β	t-stat.	Sig.	β	t-stat.	Sig.
Const.	±	0,0527	1,6008	0,1169	0,0327	0,9480	0,3489

OITA _{it}	+	0,9446	6,3479	0,0000	0,8846	8,7345	0,0000
FRAUD _{it}	-	0,0770	1,7262	0,0917	0,0642	1,7563	0,0869
OITA _{it} *FRAUD _{it}	-	-0,6962	-2,4461	0,0187	-0,6122	-2,7372	0,0093
OVER _{it}	-				-0,2884	-2,1541	0,0375
OITA _{it} *OVER _{it}	-				2,1328	1,8306	0,0748
OITA _{it} *FRAUD _{it} *OVER _{it}	-				-1,8766	-2,4036	0,0211
ASEG _{it}	+	0,0682	10,2193	0,0000	0,0753	15,5900	0,0000
DAR _{it}	-	-0,1215	-2,0262	0,0491	-0,0536	-0,8759	0,3864
F-Stat.		29,8795			36,4412		
Sig.		0,0000			0,0000		
R ²		78%			88%		
Adjusted R ²		75%			86%		
Durbin-Watson		2,1282			2,2341		
Obs.		48			48		

Notes: OITA_{it+1} (Quality of Financial Reporting year t+1); OITA_{it} (Quality of Financial Reporting year t); FRAUD_{it} (Fraud in Financial Reporting year t); OITA_{it}*FRAUD_{it} (Interaction between Quality of Financial Reporting year t and Fraud in Financial Reporting year t); OVER_{it} (Managerial overconfidence year t); OITA_{it}*OVER_{it} (Interaction between Quality of Financial Reporting year t and Managerial overconfidence year t); OITA_{it}*FRAUD_{it}*OVER_{it} (Interaction between Quality of Financial Reporting year t, Fraud in Financial Reporting year t, and Managerial overconfidence year t); ASEG_{it} (Asset Growth year t); and DAR_{it} (Debt to Asset year t). Correction heteroscedasticity using white-s heteroscedasticity-consistent variance and standard error (Ghozali & Ratmono, 2017). Rule of thumb durbin watson between 1,54-2,46 (Winarno, 2015).

The results of this study found that fraudulent financial reporting has a negative and significant effect on the quality of financial reporting, so **H₁ is supported**. According to the AICPA (2011), fraudulent financial reporting is carried out through (a) manipulation, falsification, or alteration of accounting records or supporting documents from which financial statements are prepared, (b) misrepresentation or intentional omission of financial statements, transactions, or other important information, and (c) the intentional application of accounting principles regarding the amount, classification, presentation or disclosure. The fraud that occurs causes profit information to be biased. Kurniawan *et al.* (2020) explains that earnings information is used for internal decision making, assessing performance, determining manager compensation, predicting profits and estimating risk in investment or credit. Profit information bias reflects that earning are not qualified in decision making. Dechow and Dichev (2002) explain that earnings quality is met when it has three important characteristics, namely (1) being able to accurately show the company's current operational performance, (2) being able to provide information related to good indicators in assessing company performance in the future, and (3) can be used as an appropriate measure in assessing the company's performance. This condition shows that the importance of quality earnings in decision making.

The results of this study find that managerial overconfidence can moderate the effect of fraudulent financial reporting on financial reporting quality, so **H₂ is supported**. The moderating context of managerial overconfidence is to reduce the effect of fraudulent financial reporting on the quality of financial reporting. The important implication of managerial overconfidence on the quality of financial reporting is shown from the negative side in this study that managers who have overconfidence tend to exaggerate their knowledge and skills, underestimate risk, and consider themselves capable of controlling every event and problem that occurs in the company (Fallah *et*

al., 2010). This condition of course can affect the quality of the company's earnings because the company's risk is considered to be overcome by managers.

5. CONCLUSION

There are still limited previous studies that focus on the effect of fraudulent financial reporting on the quality of financial reporting and are supported by managerial overconfidence, so this study is important to do in order to fill the gaps in previous studies. In addition, the phenomenon of fraud committed by PT. Tiga Pilar Sejahtera, Tbk motivated this study. The sample of this study uses food and beverages sub-sector companies with purposive sampling method with panel data approach. The results of this study find that fraudulent financial reporting has a negative and significant impact on the quality of financial reporting, and managerial overconfidence reduces the effect of fraudulent financial reporting on the quality of financial reporting.

The implication of this study confirms the fraud theory that the capabilities and arrogance of managers can have a negative impact on the company because it can reflect the manager's overconfidence in managing the company which has an impact on fraudulent financial reporting. As a result, the quality of financial reporting is low. This study also contributes to fill in the gaps of previous studies.

This study has limitations in measuring fraud in financial statements. This fraud measurement measures the potential because it is still probability or not absolute or 100% accurate to detect fraudulent financial reporting, so that conclusions are only based on the probability of measuring this variable, so suggestions for further studies can use other measurements in measuring fraudulent financial reporting.

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