

## THE INFLUENCE OF TAX AGGRESSIVENESS, AUDIT QUALITY, AND EARNING MANAGEMENT ON FINANCIAL STATEMENT FRAUD



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### Abstract

This research examines the influence of tax aggressiveness, audit quality, and earnings management on financial statement fraud. This research uses financial report data from the financing and banking sector, where this sector has access to sensitive data, such as customer data, transaction data, and financial data, as well as very large transaction volumes which give fraud perpetrators more opportunities to commit fraud. This research uses 57 companies in the financing and banking sector listed on the IDX in 2020 - 2022 as the sample. Hypothesis testing uses logistic regression analysis and uses Eviews 13 as supporting software in data processing. The results of this research found a significant negative influence on audit quality using the auditor size proxy. Apart from that, by using the modified Jones model, it was found that there was a significant positive influence on earnings management. Meanwhile, using the ETR differential proxy as a proxy for tax aggressiveness, no effect was found on financial statement fraud. This research was created to complete the gap in previous research, namely using the hexagon fraud theory as a theoretical basis. Apart from that, the use of differential ETR as a proxy for tax aggressiveness provides different research results. The use of the financing and banking sector in this research also complements previous research where this sector is the sector with the highest number of fraud cases according to ACFE 2024.

**Keywords:** Tax Aggressiveness, Earning Management, Audit Quality, Financial Statement Fraud

## INTRODUCTION

Fraud is a truly global problem, affecting companies in every region and in every industry around the world. No entity can truly be free from the possibility of fraud (ACFE Indonesia, 2020). Fraud is a deliberate action carried out by several individuals in management by manipulating, falsifying, or hiding information contained in financial reports so that a goal that is profitable for a particular company can be achieved. (ACFE, 2022; AICPA, 2019). Based on data from ACFE (2024), the 3 highest sectors with indications of fraud are the financial sector with 305 cases, the manufacturing sector with 175 cases, and the government sector with 170 cases. The financial and banking sector has access to sensitive data, such as customer data, transaction data, and financial data, as well as very large transaction volumes. This gives fraud perpetrators more opportunities to commit fraud.

One of the fraud cases that occurred in Indonesia in 2018 in the banking sector, namely PT Bank Jawa Barat and Banten (BJB) Syariah, was caught in a case of alleged fictitious credit which resulted in losses worth IDR 548 billion. (Arief, 2019). Another example of a banking case related to fraud occurred at Bank Negara Indonesia (BNI) in 2022, namely the existence of a fictitious transfer scheme to move customer funds to several fictitious accounts. According to data from ACFE Indonesia (2020), 239 cases of fraud occurred in Indonesia, with details of 167 cases of corruption, 50 cases of misuse of state and company assets or wealth, and 22 cases of fraudulent financial statements. Financial statement fraud is primarily a form of top-down fraud that negatively impacts individuals, organizations, and society (Albrecht et al., 2015). The case of financial report fraud in the financing sector in Indonesia occurred in 2018, PT SNP Finance manipulated financial reports by utilizing 14 banks to obtain financing from various financial institutions (Purnomo, 2018).

In Indonesia, one of the requirements for registering a company on the stock exchange is an audited financial report. This is done to assess whether the recording of each transaction is in accordance with accounting standards or not. The quality of the financial statements reported cannot be separated from the quality of the audit produced by the auditor. Audit quality is defined as the probability that an auditor will discover material misstatements in a client's financial statements (competence) and honestly report material errors, misstatements, or omissions in the client's financial statements in the auditor's audit report (independence)

(DeAngelo, 1981). Low audit quality can be reflected in the findings of violations which are generally disclosed by external parties (Nurmalita & Asmara, 2022). An audit can be said to be successful when the auditor conducts an audit in accordance with audit standards and issues an audit opinion that is following the condition of the client's financial statements at a level consistent with audit risk. (Haeridistia & Fadjarenie, 2019). Audit quality can be seen from the size of the audit company itself. Large audit companies will try to provide greater audit quality compared to small audit companies (DeAngelo, 1981).

Financial reports are also a basic reference for each entity to calculate the total tax that should be paid to the government. According to data from BPS, tax revenues in 2021-2023 managed to reach IDR 2,016.9 trillion or 115.6% based on the target of Presidential Decree 98/2022, growing 34.3%, far exceeding tax growth in 2021 of 19.3%. However, according to Tax Justice Network data (2023), Indonesia experienced tax losses resulting from tax abuse in companies worth USD 2,376 million. This was triggered by tax abuse in companies that could cause losses to the state amounting to USD 601 million per year. This shows that the increase in tax revenues is in line with the existence of tax abuse in companies. In paradigm, Myron Scholes et al. (2014) stated that effective tax planning considers not only the role of taxes when applying decision rules to maximize after-tax income but also consideration of other costs that arise in a transaction where implementing strategies to minimize taxes can incur significant costs along the non-tax dimension. The position of tax aggressiveness is found between tax avoidance and tax planning that respects the legal and ethical provisions set by the tax authority (Assidi & Hussainey, 2021). Tax aggressiveness can be interpreted as a tax planning activity that takes advantage of gray areas or loopholes in tax regulations which can be said to be legal or illegal. (Rosmaria et al., 2021). Tax Aggressiveness is a policy implemented to save on tax payments (Lubis et al., 2018). This shows that the practice of tax planning can lead to a reduction in tax obligations.

According to Hasnan et al. (2022), earnings management is defined as the activity of deliberate manipulation of actual economic conditions to mislead stakeholders. Revenue manipulation is classified as white, black, or gray. Profit manipulation which is classified as white is manipulation intended to increase transparency in financial reporting, while profit manipulation which is gray means the use of creative accounting in reporting for

opportunistic purposes or to increase efficiency in financial reporting. While black classification means that earnings management is intended to misrepresent facts to deceive the organization (Roy & Debnath, 2015). Meanwhile, from a technical perspective, earnings management can be divided into two, namely accrual earnings management and real earnings management Healy & Wahlen (1999). Accrual earnings management is carried out through management considerations in financial reports, where managers bring their opinions and subjectivity through creative accounting. Meanwhile, real profit management is closely related to daily operations, where managers aim to achieve profit targets by carrying out "activities that deviate from normal business practices", including overproduction, reducing discretionary costs, or looser sales credit policies. Implementing earnings management can certainly reduce the taxes paid to the government. This is due to a reduction in the amount distributed as dividends to shareholders as well as increasing bonuses for managers based on reported profits (Nyakarimi, 2022).

This research wants to answer previous research from Susanto et al. (2019) to use other proxies in measuring tax aggressiveness to produce more valid data, so the proxy used is differential ETR involving STR (Statutory Tax Rate) which is interpreted as the tax rate in effect in that year in the calculation. Apart from that, the use of audit quality variables as one of the independent variables in this research is also to fulfill research suggestions from Farmer (2022) to involve auditors as an additional variable in the topic of fraud research. The financing and banking sector is used because it is the sector with the highest number of fraud cases (ACFE, 2024), and also to answer research Emalia et al. (2020); Lennox et al. (2013); Md Nasir et al. (2018) to use other sectors in further research.

## **REVIEW OF LITERATURE**

This research adopts agency theory (Jensen & Meckling, 1976) and fraud hexagon theory (Vousinas, 2019) as the underlying theories. The use of fraud hexagon theory to fulfill research by Emalia et al. (2020), Lederman (2021), and Hasnan et al. (2022) to use the latest fraud theory as a theoretical basis for research. Apart from that, agency theory and hexagon fraud theory are two interrelated concepts in understanding financial statement fraud. This can be seen from the conflict of interest between the agent and the principal as the root of the

problem which is the main focus in agency theory. Conflicts between the interests of the principal and the agent can create pressure for the agent to achieve certain results, which can trigger acts of fraud. Meanwhile, the elements in the hexagon fraud theory, namely pressure, collusion, ability, opportunity, rationality, and ego, can be used as a road map for understanding how conflicts of interest can influence individuals in the form of fraud.

Company tax data is confidential and not published to the public. This tax data is contained in the Annual Corporate Tax Return which is used for company tax reporting. In the definition of tax aggressiveness, no distinction is made between practices that are legal, exploit statutory loopholes, are illegal, and are downright fraudulent. The factors in the fraud triangle, namely pressure, opportunity, and rationalization, can influence a person's possibility of committing fraudulent behavior in the field of taxation (Lederman, 2021). The existence of qualified abilities on the part of tax preparers tends to be more aggressive in preparing tax planning (Assidi & Hussainey, 2021). Tax aggressiveness carried out by management can have a negative impact on the quality of the accounting information produced. Inaccurate accounting information can mislead investors and creditors in making investment and credit decisions.

**H<sub>1</sub> :** Tax aggressiveness influences financial statement fraud.

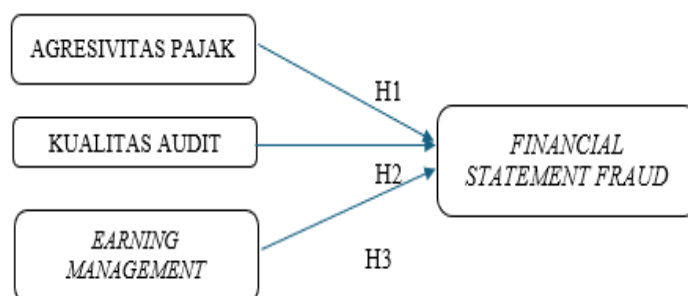
Audit quality has an important role in providing confidence to users of financial statements that the financial statements have been presented fairly, in all material respects, in accordance with generally accepted accounting standards. (Nurmalita & Asmara, 2022). Audit quality is the auditor's ability to find and report errors or fraud in the client's accounting system (Nurmalita & Asmara, 2022). High-quality audits can reduce uncertainty in management's financial reports. The existence of a positive relationship between the role of audit quality and influence on acts of financial statement fraud, means that the higher the quality of the auditor, the greater the likelihood that a company should examine the financial statements. (Darmawan & Saragih, 2017; Diah et al., 2021). High audit quality ensures that any manipulation in financial reports can be detected more quickly, thereby reducing the potential for management to commit financial statement fraud.

**H<sub>2</sub> :** Audit quality influences financial statement fraud.

Earnings management is the action of company management to influence the net profit reported in the financial statements. Earnings management can arise when management intervenes or directs the financial report reporting process. Pressure from various parties can force management to carry out earnings management (Nyakarimi, 2022). Companies prefer to manipulate profits by using accruals compared to real profits in committing fraud (Md Nasir et al., 2018). There are findings of the involvement of several banks in East Africa in earnings management and indications of being involved in financial reporting fraud (Nyakarimi, 2022). Earnings management carried out above reasonable limits often involves actions that violate generally accepted accounting principles so that earnings management can be considered a form of fraud.

**H<sub>3</sub>** : Earnings management influences financial statement fraud.

Based on the framework of thought and hypotheses explained above, the research model is as shown in Figure 1 below:



**Figure 1.**  
**Research Framework**

## RESEARCH METHOD

This research uses quantitative methods to describe or provide an overview of the objects studied through sample or population data using secondary data. The population in this research are companies operating in the financing and banking sectors registered on the IDX in 2020-2022 with a total of 58 companies. This data is accessed from IDX Indonesia. Additional criteria used as a sample are companies that regularly submit their financial reports during the 2020-2022 period. The total number of companies selected as samples was 57 companies and the total observation data used for 3 years was 171 observation data. So, the selection of observation data can be seen in table 1.

**Table 1**  
**The Sample That Meets the Criteria**

No	Sample Criteria	Total
1	Financing and banking sector companies listed on the Indonesia Stock Exchange during the 2020-2022 period	58
2	Companies that do not submit financial reports consecutively during the 2020-2022 period	-1
3	The number selected as the sample	57
4	Total sample data for the 2020-2022 period (57 samples x 3 years)	171

In this research, financial statement fraud is measured using the Beneish M-Score model (Beneish, 1999), because in its calculations, M-Score uses financial ratios that are sensitive to manipulation, so it can provide a direct indicator of the potential for fraud itself and can also provide a comprehensive picture of the company's financial health. The component used in M-Score is DSRI (Day's Sales Receivable Index), which is a ratio used to measure changes in the number of days required to collect receivables from customers. GMI (Gross Profit Margin), namely the ratio of gross margin in the previous year to gross margin in year t. AQI (Asset Quality Index), is a ratio to measure the proportion of total assets that have the potential to have uncertain benefits in the future. SGI (Sales Growth Index), is a ratio used to measure the sales growth of a company from year to year. DEPI (Depreciation Index) is a ratio used to measure the level of depreciation of a company's fixed assets from year to year. SGAI (Sales, General, and Administrative Expenses Index), is a ratio used to measure the relationship between selling, general and administrative expenses on a company's income. TATA (Total Accruals to Total Assets), namely the ratio used to measure the proportion of total accruals to the company's total assets. This ratio provides information about how much of a company's assets come from accruals, which are income recognized but not yet received in cash, as well as expenses recognized but not yet paid. LVGI (Leverage Index) is a ratio that provides an overview of the company's capital structure and its ability to meet its debt obligations.

The following is the formula for each component used

$$DSRI = \frac{\frac{Net\ Receivables_t}{Sales_t}}{\frac{Net\ Receivables_{t-1}}{Sales_{t-1}}}$$

$$GMI = \frac{\frac{Sales_{t-1} - COGS_{t-1}}{Sales_{t-1}}}{\frac{Sales_t - COGS_t}{Sales_t}}$$

$$AQI = \frac{\frac{1 - (Current\ Asset_t + PPE_t)}{Total\ Asset_t}}{\frac{1 - (Current\ Asset_{t-1} + PPE_{t-1})}{Total\ Asset_{t-1}}}$$

$$SGI = \frac{Sales_t}{Sales_{t-1}}$$

$$DEPI = \frac{\frac{Depreciation_{t-1}}{PPE_{t-1} + Depreciation_{t-1}}}{\frac{Depreciation_t}{PPE_t + Depreciation_t}}$$

$$SGAI = \frac{\frac{SGA\ Expense_t}{Sales_t}}{\frac{SGA\ Expense_{t-1}}{Sales_{t-1}}}$$

$$TATA = \frac{Income\ From\ Operating_t - Cash\ Flow\ From\ Operating_t}{Total\ Asset_t}$$

$$LVGI = \frac{\frac{Current\ Liabilities_t + Long\ Term\ Debt_t}{Total\ Asset_t}}{\frac{Current\ Liabilities_{t-1} + Long\ Term\ Debt_{t-1}}{Total\ Asset_{t-1}}}$$

The use of 8 components in the M-Score calculation is designed to capture distortions in financial statements that can occur due to manipulation or conditions that might encourage companies to manipulate (Beneish, 1999). The M-Score calculation is formulated as follows (Beneish, 1999; Ratmono et al., 2020) :

$$M\text{-Score} = -4.84 + (0.92*DSRI) + (0.528*GMI) + (0.404*AQI) + (0.892*SGI) + (0.115*DEPI) - (0.172*SGAI) + (4.679*TATA) - (0.327*LVGI)$$

Where the M-Score uses a dummy variable, namely if the M-Score < -2.22, then the company did not commit financial statement fraud and is given a value of 0. Conversely, if

the M-Score value is  $> -2.22$  then the company committed financial statement fraud and is given a value of 1 (Kristianti & Meiden, 2021; Nyakarimi, 2022; Ratmono et al., 2020).

The use of ETR as a measurement of tax aggressiveness is to determine the tax burden borne by the company in a certain period. The tax burden in the ETR calculation is used to ensure that the tax burden in the current period is similar to the total tax reported in the company's Annual Tax Return (Lennox et al., 2013). However, to be able to conclude whether a company is tax-aggressive or not, it is necessary to carry out additional comparisons using the Statutory Tax Rate (STR), namely the tax rate regulated by law. In Indonesia, this STR is closely related to Corporate PPH, where in 2020 and 2021 the Corporate PPH rate set is 22% and for 2022 it will be 20%. A company can be said to be tax-aggressive when the ETR result is smaller than the STR. In this research, the author uses the Differential Effective Tax Rate (ETR) to measure tax aggressiveness following research (Juliati & Rahmawati, 2022; Rosmaria et al., 2021; Tarmidi et al., 2020) with the detailed formula as follows:

Differential ETR = STR – ETR

$$ETR = \frac{\text{Income Tax Expense}}{\text{Profit before tax}}$$

Audit quality can be seen from the size of the audit company itself. Large audit companies will try to provide greater audit quality compared to small audit companies (DeAngelo, 1981). So based on this view, this research uses audit quality measurements with variables dummy. Companies audited by auditors affiliated with the Big 4 will be given code 1, and if companies use the services of non-Big 4 auditors they will be given code 0 (Haeridistia & Fadjarenie, 2019; Khudhair et al., 2019; Tarmidi et al., 2021).

Meanwhile, earnings management is measured using the Modified Jones Model. The difference between the Modified Jones Model and the Jones Model lies in determining non-discretionary accruals, where to measure non-discretionary accruals, including elements of changes in trade receivables to estimate non-discretionary accruals. (Indriani & Pujiono, 2021). The calculation formula for the modified Jones model is as follows:

$$DACC_{it} = (TA_{it} / A_{it-1}) - NDA_{it}$$

Testing the hypothesis in this study uses logistic regression analysis because it is suitable for research where the variables are categorical (nominal or non-metric) and the

independent variables are a combination of metric and non-metric. (Ghozali & Ratmono, 2014).

## RESULTS AND DISCUSSION

The results of testing the hypothesis of this research are in Table 2 below

**Table 2**  
**Hypothesis Testing Results**

Variable	Coefficient	Std. Error	z-Statistic	Prob.
Constant	-0.167351	0.136187	-1.228835	0.2191
Tax Aggressiveness (X1)	0.092032	0.177458	0.516812	0.6040
Audit Quality (X2)	-0.552833	0.206189	-2.681196	0.0073
Earning Management (X3)	0.518570	0.180589	2.871542	0.0041
Hosmer Lemeshow Test	Prob Chi Square 0.4372			
% Correct Estimation Quotation	65%			
Prob (LR Statistic)	0.000200			
R <sup>2</sup>	0.085841			

Source: Eviews 13 data processing results

In logistic regression analysis, it is necessary to test whether the data used is fit so that it can predict the regression model using the Hosmer Lemeshow Test. (Sihombing, 2022). Referring to Table 2, the result of this test is 0.4372, greater than 0.05, so it can be said that the resulting regression model is fit or can predict the observed value. Meanwhile for R results<sup>2</sup> has a result of 0.085841 or a value of 8.58%, meaning that the variation in Financial Statement Fraud can only be explained 8.58% by tax aggressiveness, audit quality and earnings management while the rest can be explained by other variables outside this model. Model accuracy testing is also needed in logistic regression analysis to test whether the model used is able to predict correctly or not (Sihombing, 2022). Referring to Table 2, the accuracy test results of this model were able to predict 65% correctly, meaning that this model was able to provide quite good predictions regarding Financial Statement Fraud which was influenced by the independent variables in this research.

Table 2 also shows the results of partial hypothesis testing using the Wald Test and simultaneously using the Likelihood Ratio Test. The probability value for Tax Aggressiveness (X1) towards Financial Statement Fraud is 0.6040 > 0.05 with a z-Statistics value of 0.5168. This means that Tax Aggressiveness has no effect on Financial Statement

Fraud, so hypothesis 1 ( $H_1$ ) rejected. Meanwhile, the probability value for Audit Quality ( $X_2$ ) for Financial Statement Fraud is  $0.0073 < 0.05$  with a z-statistic value of -2.6812. This means that Audit Quality influences Financial Statement Fraud, so hypothesis 2 ( $H_2$ ) is received with a negative direction of influence. Apart from that, the results of hypothesis testing also show that the probability value for Earning Management ( $X_3$ ) on Financial Statement Fraud is  $0.0041 < 0.05$  with a z-statistic value of 2.8715. This means that Earning Management influences Financial Statement Fraud, so hypothesis 3 ( $H_3$ ) is received with a positive direction of influence. Meanwhile, from the results of the simultaneous Likelihood Ratio test, the value was  $0.000200 < 0.05$ . This means that Tax Aggressiveness, Audit Quality and Earnings Management have a simultaneous influence on Financial Statement Fraud.

Referring to the results of statistical testing of the first hypothesis which shows that the resulting probability value is  $0.6040 > 0.05$  with a z-statistic value of 0.5168. This means that in this research Tax Aggressiveness does not have a significant effect on Financial Statement Fraud. In corporate practice, the two are often linked but have different concepts. Tax aggressiveness refers to the tax planning carried out by a company by minimizing the payment of tax obligations (Assidi & Hussainey, 2021), while financial statement fraud refers to deliberate actions carried out by management to hide the true financial situation (Weygandt et al., 2015). Companies that engage in tax aggressiveness tend to exploit loopholes in applicable tax laws to reduce their tax liabilities as part of their tax planning without having to violate applicable accounting principles. Agency theory explains the relationship between principals (owners) and agents (managers) in the context of decision making that can influence company performance. In this case, managers may be encouraged to carry out tax aggressiveness to reduce the tax obligations that must be paid, but this does not always lead to fraudulent financial statements. The results of this hypothesis testing are in line with research (Lennox et al., 2013) where companies that carry out tax aggressiveness are not always involved in accounting fraud. Tax aggressiveness can be seen as an attempt to maximize after-tax profits, but this does not mean that this will encourage management to commit fraud. On the other hand, the hexagon fraud theory provides a more comprehensive framework for understanding financial statement fraud. According to this theory, fraud is not only triggered by tax aggressiveness, but also by a combination of various interacting factors.

Like the research results (Lederman, 2021) where tax avoidance affects Financial Statement Fraud using the "fraud triangle" concept. The factors in the fraud triangle, namely pressure, opportunity and rationalization, are considered to influence a person's possibility of committing fraudulent behavior in the field of taxation.

Furthermore, the results of testing the second hypothesis have a probability value of  $0.0073 < 0.05$  with a z-statistic value of -2.6812. This shows that audit quality as proxied by KAP size has a significantly negative effect on Financial Statement Fraud, meaning that the higher the audit quality implemented, the lower the potential for financial statement fraud to occur. From an agency theory perspective (Jensen & Meckling, 1976), the relationship between management (agent) and company owner (principal) can create a potential conflict of interest because management has more information and tends to take opportunistic actions. A good quality auditor acts as an independent party whose function is to supervise and ensure that financial reports are prepared in accordance with applicable accounting standards, so that this can minimize the potential for fraudulent behavior by management. Meanwhile, if it is related to the hexagon fraud theory (Vousinas, 2019), good audit quality is able to suppress every element in this fraud hexagon because quality audits can narrow management's space for manipulation. Competent auditors will carry out audit procedures carefully, use modern audit techniques, and understand the complexity of the client's business, so that fraud gaps can be closed. High audit quality ensures that any manipulation in financial reports can be detected more quickly, so that management will think again before committing fraud. This is in line with research results which show that the higher the quality of the auditor, the greater the likelihood that a company will have to examine the financial statements (Darmawan & Saragih, 2017; Diah et al., 2021; Emalia et al., 2020). Meanwhile, on the other hand, the results of this research are not in line with previous research which stated that Audit Quality has no influence on Financial Statement Fraud (Achmad, 2018). This is because auditors who are affiliated with the Big 4 are not a guarantee of having good audit quality in finding fraudulent financial statements.

Finally, the results of the third hypothesis test show a probability value of  $0.0041 < 0.05$  with a z-statistic value of 2.8715. This shows that earnings management uses the Jones modification model (Jones, 1991) has a significant positive effect on financial statement

fraud. This means that the higher the earnings management value, the higher the company's potential for committing financial statement fraud. In practical implications, companies will carry out earnings management to hide the company's poor performance to users of financial reports. If it is related to agency theory (Jensen & Meckling, 1976), earnings management can occur due to information asymmetry (Scott, 2017), where management has more information than the company owner so there is a tendency to act opportunistically to carry out earnings management. Meanwhile, if it is related to the fraud hexagon (Vousinas, 2019), 6 factors that cause cheating (pressure, opportunity, rationalization, ability, arrogance, and collusion) play a role in encouraging this practice. Pressure from profit targets and stakeholder expectations encourages management to act manipulatively. Opportunities arise due to weak internal controls, while rationalization provides moral justification for the action. Factors of ability and arrogance allow individuals in management to hide manipulation with confidence, often even involving collusion with other parties. Thus, earnings management that is left unchecked can transform into fraudulent financial reporting which can damage the integrity of the company. The results of this test are in line with research results which state that the existence of a relationship between these two variables can be caused because the party who has the authority to prepare financial reports has sufficient ability to deliberately manipulate financial reports. (Md Nasir et al., 2018; Nyakarimi, 2022). However, the results of this study contradict the results of other studies where earnings management does not affect financial statement fraud because an entity carries out earnings management practices only to manipulate parties who receive financial information, not to commit financial statement fraud. (Irman et al., 2023).

## **CONCLUSION**

This research aims to examine the influence of tax aggressiveness, audit quality and earnings management on financial statement fraud using the financing and banking sectors. The research results show that Audit Quality has a negative influence on Financial Statement Fraud. This means that the higher the audit quality implemented, the lower the potential for financial statement fraud to occur because large audit companies will try to present better audit quality compared to small audit companies. These results are consistent with previous

research that used the same variables (Darmawan & Saragih, 2017; Diah et al., 2021; Emalia et al., 2020). Apart from that, the results of this research also show that Earning Management has a positive influence on Financial Statement Fraud. This means that the higher the earnings management value, the higher the company's potential for committing financial statement fraud. The results of this test are in line with research results which state that the existence of a relationship between these two variables can be caused because the party who has the authority to prepare financial reports has sufficient ability to deliberately manipulate financial reports. (Md Nasir et al., 2018; Nyakarimi, 2022). However, this research failed to find the effect of tax aggressiveness on financial statement fraud in the sector used. This indicates that Companies that are tax-aggressive tend to take advantage of loopholes of applicable tax laws to reduce their tax liabilities as part of their tax planning without having to violate applicable accounting principles.

In implementing practices, the Company considers it necessary to improve the company's internal controls to avoid earnings management practices and fraud in financial reports. This practice of fraudulent financial reporting may cause the company's image to improve in the eyes of investors, but on the other hand, in the long term, it will reduce the integrity of the company itself. Apart from the company's internal side, there is a need for increased supervision from the OJK regarding the potential for fraudulent financial reports.

This research has the limitation of only using the variables tax aggressiveness, audit quality, and earnings management over a period of only 3 years. Future research can add other variables such as the frequency of financial statement restatements, include moderating factors, explore the impact on the company's value, or utilize alternative proxies to broaden the findings related to financial statement fraud.

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