International Journal Management and Economic
IJME JOURNAL Vol. 3 No. 3 September 2024 – pISSN: 2829-0399, eISSN: 2829-0526, Page 81-89

SCORE MODEL AND RISK LITIGATION: INVESTIGATING THE IMPACT OF FRAUD IN REPORT CORPORATE FINANCE

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ABSTRACT

Study This testing the Score model against fraud reports financial impact on risk litigation company. The independent variable is SCORE (stimulus, capability, opportunity, rationalization and ego) while the fraud report finance as an intervening variable and risk litigation is the dependent variable. In research This population used is company sector mining companies registered in Indonesia with total of 30 companies. Research data This is secondary data in the form of report annual companies that can accessed on the Indonesia Stock Exchange (www.idx.co.id). The data analysis method uses the analysis model regression multiple. Analysis This use calculation statistics Eviews 12. Testing using: statistics descriptive. t-statistic test and hypothesis test Stability finance, Nature of industry and amount audit committee does not own influence on fraud report finance. The proportion of independent commissioners and political connections have a significant effect on financial report fraud. Fraud report finance does not influential to litigation company.
***Keywor**d: Fraud report finance, litigation, Score model, Fraud diamond theory*

1. INTRODUCTION

Industry mining is one of sectors that have role crucial in global economy, providing source power required For various industry. However, this industry is also faced with high risks related to transparency and accuracy of financial reports. Fraudulent practices in financial reports in mining companies can appear in the form of asset manipulation, inaccurate income reporting, or neglect of environmental obligations. As a result, stakeholders, including investors, governments, and communities, have the potential to experience significant losses. The impact of fraud not only has a direct impact on the company's finances but can also trigger serious litigation risks. Lawsuits can come from various parties, including shareholders who feel aggrieved or regulators who oversee compliance with environmental regulations (Mardyatna & Ayem, 2022) In addition, this litigation can result in high legal costs, reputational losses, and ongoing operational disruptions.

The SCORE model (Stimulus, capability, opportunity, rationalization and ego) is an analytical tool used to evaluate factors that can affect company performance, including the impact of fraud (Vousinas, 2019a) . This model helps in identifying potential risks and determining areas that require special attention. In this context, the SCORE model can help analyze the relationship between financial statement fraud and litigation , considering aspects such as regulatory compliance, internal controls, and business ethics. In the mining sector, access to accurate and transparent data is often a challenge. This can limit ability For analyze the impact of fraud in general comprehensive. The SCORE model can help overcome these limitations by providing a more structured framework for analyzing the risk and impact of fraud on litigation (Supriatiningsih, 2022) . Investors and other stakeholders play an important role in assessing mining companies. They rely on transparent financial reports to make investment decisions (Taqi; et al., 2024) . When fraud occurs, its impact can be widespread, affecting stakeholder trust and leading to litigation that can affect the overall value of the company (Samukri et al., 2022) .

The financial report fraud case involving PT. Bukit Asam Coal Mine in 2018 was related to issues of transparency and inaccurate reporting related to operational costs and use of funds. The following are further details of the case summarized (Kontan, 2018). PT. Bukit Asam is one of the largest coal mining companies in Indonesia, listed on the Indonesia Stock Exchange. As a public company, they are required to prepare accurate and transparent financial reports, in accordance with applicable accounting standards. In 2018, a number of media reports and analyses indicated that there was ambiguity in Bukit Asam's financial statements. Some of the issues raised included: There were allegations that the reported costs did not reflect the actual costs incurred by the company. This could result in a misconception about the company's financial performance. There were questions regarding the unclear use of funds, where the allocation of funds for certain projects was not explained properly in the report. This raised concerns about management transparency in financial management. These issues indicate that the company's internal control system may not be strong enough to detect or prevent potential fraud, increasing the risk of fraud in the financial statements.

With increasing focus on governance companies and compliance, regulators are also increasingly notice fraud problem. In the context of this, company mine must face challenge For comply standard strict regulations, which can impact on litigation If happen cheating. With background behind this is important For analyze impact of fraud report finance to litigation company through the SCORE model, so that company can more understand risks faced and taken steps For repair supervision and governance they. The results of the study previously is (Darwis & Rini, 2024) who researched about Examining The Impact of Pressure and Opportunity on Financial Statement Fraud: Case Study Using the Beneish, results show that pressure and opportunity influential against fraud reports finances of indexed companies Sri Kehati shares (Malm & Sah, 2019) in his research about Litigation risk and working capital, the results is that company with risk litigation tall own period overdue receivables long, requires longer time to change supply into cash , and not pay Supplier they with quick.

Study This aiming special For knowing the influential Score model against fraud reports financial impact on litigation company mining. Reasons for choosing company mining is Industry mine own different dynamics and challenges compared to other sectors. This includes dependence on sources Power nature, fluctuation price commodities, and issues complex environment. These characteristics provide an interesting context for deeper analysis. Mining companies often operate in high-risk environments, where pressure to deliver results can drive fraud. Research in this context can provide insight into how and why financial reporting fraud occurs. The mining industry is heavily regulated by government and environmental agencies. This creates a rich backdrop for exploring how regulatory compliance can impact financial reporting practices and litigation. Mining companies often make significant investments in exploration and development. The significant value of assets and valuable resource reserves make this sector an interesting one to study, particularly in the context of the impact of fraud on firm value. Mining activities can have significant social and environmental impacts. Research on fraud in mining companies can take these factors into account, making it relevant to society and stakeholders.

2. LITERATURE REVIEW

2.1. Litigation Risk

The risks inherent in a company that could result in the threat of litigation by creditors, investors and regulators who feel disadvantaged by the company (Abbas et al., 2022) . Litigation risk can be measured from various financial indicators that are likely to result in litigation. Errors report finance often happened to the company company *go public* result in existence risk litigation. Even level risk litigation the more tall when company to straighten up law in capital market environment that is run with both by the company. Risk litigation also referred to as factor external which will push manager For report finance company That in accordance with good quality so that attract investors or give trust the to investors (Ardana & Sujana, 2018) .

2.2. Fraud Report Finance

Misrepresentation report finance can defined as a fraud report finance If report finance manipulated with the wrong way that causes misinterpretation of condition company (Supriatiningsih, 2022) (F. Agung Himawan; ALbertus Karjono, 2019) . Fraud is carried out with all method including inflation income or profit , concealment loss or debt , manipulation balance sheet , usage transaction fake and neglect principle accountancy (Earth; Supriatiningsih, 2023) . Fraud of this kind This Can harm Lots party related and can lead to consequences law like demands civil or criminal as well as other financial losses (Wati et al., 2020) .

2.3. Score Model

The score model is another name for Pentagon theory is based on 5 aspects namely stimulus, capability, opportunity, rationalization and ego (Griffin, 2010) (Puspitha & Yasa, 2018) . Pentagon theory is a development of the diamond theory (Street & Hermanson, 2019) . Stimulus or pressure is the main cause of someone committing financial report fraud so that the company can be said to be financially stable. A person will not commit fraud if they do not have the capability, one of the drivers of fraud (Hadiani et al., 2020) , (Skousen et al., 2015) . Someone committing fraud because existence opportunity. less than optimal supervision causes somebody committing fraud (Skousen et al., 2009) . Rationalization is a action justify what has been he did even though it is wrong. They believe that their actions do not violate the law even though the actions are considered unethical (Suryandari & Pratama, 2021) . According to (Vousinas, 2019b) (Aprilia, 2017) ego or arrogance is behavior that shows respect and selfishness someone who believes that they capable do cheating and not will caught sanctions .

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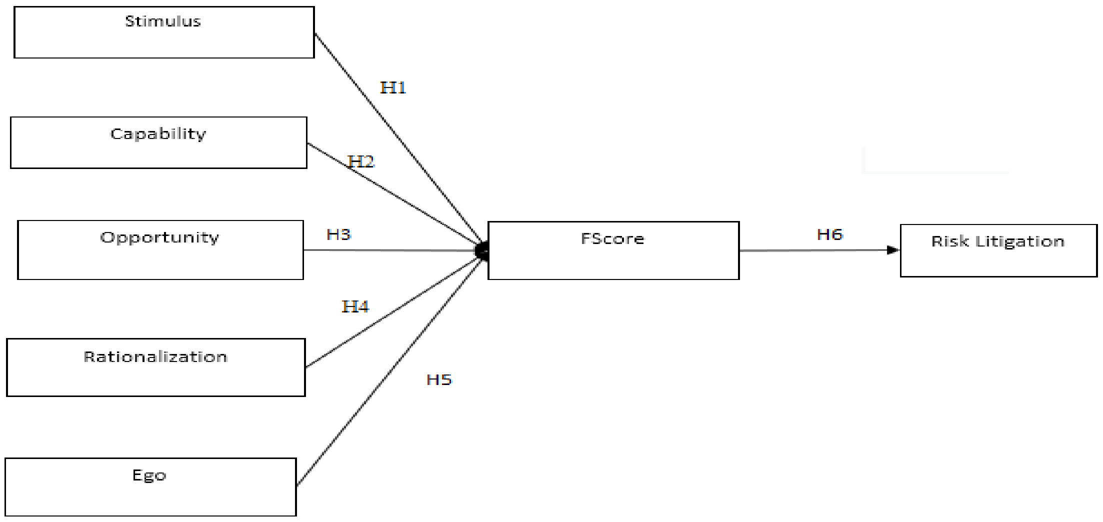
Image: Concept model study



Source: author's data processing

2.4. Hypothesis study :

1. H1 = Stimulus has an effect on financial report fraud
2. H2 = Capability has an effect on financial report fraud
3. H3 = Opportunity has an effect on financial report fraud
4. H4 = Rationalization has an effect on financial report fraud
5. H5 = Ego has an effect on financial report fraud
6. H6 = Financial report fraud has an effect on litigation risk

3. RESEARCH METHODS

In research This population used is company sector mining companies registered in Indonesia with total of 30 companies . Research data This is secondary data in the form of report annual companies that can accessed on the Indonesia Stock Exchange (www.idx.co.id) . The data analysis method uses the analysis model regression multiple. Analysis This use calculation statistics Eviews 12. Testing using: statistics descriptive. t-statistic test and Hypothesis test

The purposive sampling method used in study This :

1. Mining companies that went public on the Indonesia Stock Exchange , 2018-2022 .
2. Companies that publish report finances that have been audited For 2018-2022 consecutively.
3. Data available in a way complete related with research variables during period 2018-2022

3.1. Data analysis methods

Measurement Variables operational

Table 1. Measurement of variables

Variables	Measurement	Scale
Financial stability	Inv/Sales	ratio
Capabilities	The proportion of independent commissioners	ratio
Opportunity	$REV = \frac{Receivable - Receivable_{t-1}}{Sales - Sales_{t-1}}$	ratio
Ego	Dummy, if holding concurrent position = 1 otherwise = 0	nominal
Financial statement fraud	F-Score	ratio
Litigation	RL = UP+(UTL/TA)+(UL/AL)	ratio

Source : author's data processing

4. RESULT AND DISCUSS

4.1. RESULT

4.1.1. Descriptive Statistics

Table 2. Results of descriptive statistical tests

Var	N	Mean	Median	Min	Max	Standard Deviation	Excess Kurtosis	Skewness
Stimulus	150	0.236	0.062	0	4.266	0.526	25.120	4.423
Capabilities	150	0.13	0	0	1,000	0.336	2.945	2.217
Opportunity	150	-0.014	0.085	-12,261	5,067	1,433	43,640	-5.465
Rationalization	150	3.101	3,000	1,000	5,000	0.538	5.164	0.162
Ego	150	0.065	0	0	1,000	0.247	10,751	3,556
RSTI	150	55,044	0.787	-2.334	1,114,383	233,354	13,556	3,661
Litigation	150	2.616	1.122	-3.896	76,366	9.268	58,552	7.243

Source : results eviews data processing

Based on table 1 statistics descriptive , known the minimum RSTI F- SCORE (Y) value is -2,334 and the value maximum 1114,383 . The average (*mean*) of F-SCORE is 55,044 and standards the deviation as big as 233,354. Minimum value of Financial Stability is 0 and the value maximum 4.266. The average (*mean*) of Financial stability is 0.236 and standard the deviation as big as 0.526. Minimum Capability value is 0 and the value maximum 1,000. Average (*mean*) of Capability is 0.13 and standard the deviation of 0.336. While mark minimum . While mark Minimum Opportunity is -12.261 and the value maximum 5,067. *The* mean of Opportunity is -0.014 and the standard the deviation of 1,433. While mark minimum Rationalization is 1,000 and the value maximum 5,000. The average (*mean*) of Rationalization is 0.056 and the standard the deviation of 0.538. Ego is known with a minimum value of 0 and a maximum value of 1,000, an average of 0.065 with a standard deviation of 0.247. While the minimum value of Litigation (Z) is -3.986 and the maximum value is 76.366. The average (*mean*) of PBV is 2.616 and the standard deviation is 9.268.

4.1.2. T Statistics

Table 3. Results of the statistical t-test

	R Square	R Square Adjusted
Litigation	0.000	-0.005
RSTI	0.037	0.008

Source: results eviews data processing

Interpretation in R Square (fraudulent financial report) can explained by variables independent in the regression model . In this case This , R Square of 0.005 shows that 5% variation in report fraudulent finance can explained by the regression model used. This shows that this model is very weak and does not can explain part big variation in data.

R Square Adjusted is customized version of R Square with amount variable independent in the model. This value provides a more accurate picture, especially when there are many independent variables in the model. With a value of 0.005, this indicates that after adjusting for the number of variables in the model, about 5% of the variation in fraudulent financial reporting can still be explained by the model. A small difference between R Square and Adjusted R Square shows that addition variable No causing significant overfitting . But low R Square and Adjusted R Square values show that the regression model used For calculating F-Score no accurate in predict possibility existence report fraudulent finances.

For Green Reputation, R Square is 0.037 and Adjusted R Square is 0.008. This shows that only 3.7% (or 8% after adjustment) variation in firm value (PBV) can explained by the model used . This shows that this model not enough strong in explain variation in reputation green, and maybe There is other factors that are more significant that has not been entered to in the model.

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4.1.3. Hypothesis Testing

Table 4. Hypothesis test results

Path	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	
STIMULUS → RSTI	-0.058	0.023	0.099	0.583	**0.560**	**Not supported**
CAPABILITY → RSTI	0.159	0.179	0.073	2.180	**0.030**	**Supported**
OPPORTUNITY → RSTI	0.021	0.023	0.021	1,042	**0.298**	**Not supported**
Rationalization → RSTI	0.035	0.036	0.051	0.694	**0.488**	**Not supported**
CEO_DUALITY → RSTI	-0.036	-0.035	0.020	1,775	**0.077**	**Not supported**
RSTI → Litigation	0.019	0.025	0.050	0.374	**0.708**	**Not supported**

Source: results eviews data processing

4.2. DISCUSSION

4.2.1. The influence of financial stability on fraud reports finance

Analysis results show that the T-Statistic data is 0.583 with a P-Value of 0.560, which means No significant. This shows that stability finance No own influence against F-SCORE. In other words, the performance finance the company being measured through stability finance (Inv/Sales) in direct No increase fraud in reporting finance (F-SCORE). Although company profitable , employees Possible committing fraud because factors like based bonuses performance or For avoid dismissal . These motivations can be individual and are not always related to the overall state of the business. The mining industry in Indonesia faces complex regulatory issues. No matter how good a company’s financial condition is, regulatory uncertainty or lack of oversight can lead to fraud. If the corporate culture is unethical or tolerant of fraud, fraudulent practices can increase. Financial stability will not prevent fraud if the work environment supports such behavior. In addition, weak internal control systems can cause fraud to go undetected, even if the company has good financial conditions. The company may No have adequate internal audit or system effective reporting . Although in a way financial stable , factors This still can contribute to the occurrence cheating . This is supported by research from (Yunus et al., 2019) (Budiyono & Arum, 2020) but results study from (Supriatiningsih, 2022) (Daniel TH Manurung, 2015) (Imtikhani, 2021) that financial stability has an effect against fraud reports finance.

4.2.2. The influence of capability on fraud reports finance

Analysis results show that statistics obtained is 2.180 with a P-Value of 0.030, which shows significance. Proportion commissioner independent in the company influential significant to fraud report finance. This means that the more big proportion commissioner independent, increasingly A little company commit fraud in reporting finance. Commissioner independent own not quite enough answer For monitor and assess performance management. More supervision strict can help prevent action No ethics and fraud, such as manipulation report finance.

Because of the commissioner independent No own connection personal or interest financial with company, they can take decisions and give objective assessment, which is important For detect possibility fraud. They also increase transparency in the company's financial statements and operations, and can encourage management to be more accountable. This means that the possibility of fraud will be reduced. Thus, investors, independent commissioners, and other stakeholders have greater confidence that the company's financial statements are audited and managed properly. This confidence can serve as a deterrent against fraudulent behavior. Independent commissioners generally have a good understanding of ethical business practices and relevant experience. Research results This supported by (Ozcelik, 2020) (Novarina & Triyanto, 2022) but (Fadli & Junaidi, 2022) stated that proportion independent commissioner no influential against fraud reports finance.

4.2.3. The influence of opportunity on fraud reports finance

Analysis results show that statistics obtained is T-Statistic: 1.042 and P-Value: 0.298 (not significant). Nature of industry, or ideal state of a company, no own influence significant to F-SCORE. This means that the ideal state of a company No determined by fraud in report finance. Fraud in report finance more often influenced by the decision managerial and behavioral individual in company. Regardless from type industry, decisions taken by management can become factor main in the occurrence of fraud. Although industry mine own characteristics certain applicable regulations and supervision For all industry can influence practice reporting finance. If supervision No adequate, company can commit fraud regardless from type the industry. Fraud often triggered by motivation individual, such as based bonuses performance, pressure For reach the target, or afraid will dismissal. Factors This nature personal and not related direct with the nature of industry.

Culture and ethics company more determine behavior employee than type industry. If a company's culture supports unethical behavior, fraud can occur, regardless of the industry sector. Difficult economic conditions or market instability can encourage companies from all sectors, including mining, to manipulate financial statements. This shows that external conditions are more influential than the nature of the industry. Although mining companies have complex processes, factors such as poor internal control systems and audit processes can cause fraud to go undetected, regardless of the type of industry. In the mining industry, the pressure to show good performance does exist, but this is not specific to this industry. Companies from various sectors also face similar pressures, which can lead to fraud. Research results This supported by (Indarti & Siregara, 2018) (Rizkia et al., 2023) but (Putri et al., 2021) different which states that the nature of industry has an influence against fraud reports finance .

4.2.4. Influence Rationalization against fraud reports finance

Analysis results show that statistics obtained is T-Statistic: 0.694 and P-Value: 0.488 (not significant). The amount audit committee does not own influence against fraud in report finance. Although amount member the audit committee can become indicator supervision, quality and competence member the more important. If the member audit committee does not own skill or sufficient experience, quantity they No will prevent or detect fraud. If the company's internal control system is not strong, the existence of an audit committee, regardless of its size, will not be effective. Fraud can occur if there are gaps in internal control that are not fixed. The large number of audit committee members does not guarantee that the committee will be active and effective in carrying out its duties. If the audit committee does not carry out their functions properly, they will not be able to prevent or detect fraud.

An unethical corporate culture can also affect the effectiveness of an audit committee. If a company has an environment that is tolerant of fraud, audit committee members may not feel compelled to report or follow up on detected fraud. Audit committee members may face pressure from management not to disclose problems or fraud. If they do not have strong independence, a large number of members will not have a significant effect on financial reporting oversight. The audit performance of the external auditor is more important than the number of audit committee members. If the auditor does not conduct the audit carefully or there is collusion between the auditor and management, fraud can still occur. The audit committee may also have limited time and resources to carry out effective oversight. Even with a large number of members, without adequate support, they may not be able to carry out their duties properly. Thus, although the number of audit committee members can contribute to oversight, other factors such as quality, corporate culture, and independence of audit committee members are much more important in preventing fraud in financial reporting. The results of this study are supported by (Suryandari & Pratama, 2021) (Ayem et al., 2022) (Widarti, 2015) but (Kurniati et al., 2020) stated that rationalization has an effect on financial report fraud.

4.2.5. The Influence of Ego on Fraud Reports finance

Analysis results show that statistics obtained is T-Statistic: 1.775 and P-Value: 0.077 (not significant). CEO duality is not own influence against fraud in report finance Mining company usually own structure strong internal controls, including an independent audit committee. Although the CEO also serves as chairman of the board, system good supervision can help prevent acts of fraud, so CEO duality does not influential significant. If culture company uphold tall ethics and transparency, then risk fraud will reduced. In the company mines that have values strong ethics, CEO duality may No has an impact on fraud practices, because all parties in the company pushed For act in a way responsible answer. Mining company often be under supervision strict from government and institutions environment. This is create pressure For comply regulation and maintenance transparency.

In context this, CEO duality may be No Enough For push fraudulent action, because supervision strict external. Investors in the sector mine tend more notice performance operational and potential term long than structure managerial. If the company show good result in production and management source power, investors may more tend For ignore problem related to CEO duality. A CEO who also serves as chairman of the board can provide strong and consistent leadership. If the leader has a good reputation and strong experience in the industry, this can offset the potential risks posed by CEO duality. Financial statement fraud is often triggered by external factors, such as pressure to meet financial targets, economic conditions, or complex regulatory issues. In the context of this, CEO duality may be No factor the main contributor to the fraud. If other board members own independence and courage For challenge CEO's decision, then potential risk from CEO duality can minimized . The existence of strong and independent board members can help guard balance in taking decision. Research results This supported by (Febrianto & Suryandari, 2022) but results study This different with (Van Hoang et al., 2021) (Rostami & Rezaei, 2022) which states that CEO duality has an effect on financial report fraud.

4.2.6. Impact of Fraud Reports finance to risk litigation

Analysis results show that statistics obtained is T-Statistic 2.775 P-Value **:** 0.000 no significant. F-SCORE is not influential to litigation company. Investors and stakeholders interests in the industry mine Possible more tolerant to risks and uncertainties inherent in operations, including fraud. They often understand that company mine face various challenges, such as fluctuation price commodities and complex regulations. Mining projects often have long life cycles and involve large investments. If a company demonstrates the potential long-term value of its assets, stakeholders may be more focused on future performance than on potential financial reporting issues. Mining companies operate under strict regulatory oversight, which can reduce the risk of litigation. If companies can demonstrate compliance with existing regulations, this can protect them from litigation even if there is fraudulent financial reporting.

Many investors in sector mine more prioritize mark asset physical and reserves source Power than report finance term short. If the company own valuable mineral reserves, this can reduce impact negative from fraud in report finance. Mining companies often have internal procedures and mechanisms to deal with issues related to fraud. If companies can deal with issues transparently and proactively, this can reduce the likelihood of litigation.

Some types of fraud may not have a significant direct impact on a company's operations, so litigation may not be a major concern for investors or stakeholders. Companies that have good relationships with their communities and stakeholders may be able to reduce the risk of litigation despite problems with their financial statements. If they are able to explain the situation openly, this can help mitigate the negative impact. In certain circumstances, such as economic crises or environmental issues, companies may have greater support from stakeholders, so litigation can be avoided even if there is fraud in their financial statements. Thus, while financial statement fraud can have consequences, certain factors within the mining industry, including the nature of the assets, regulation, and risk tolerance, may mitigate its impact on a company's litigation. The authors have not found any previous studies of this kind

5. Conclusion

The conclusion of this study is that financial stability, Nature of industry and the number of audit committees have no effect on financial statement fraud. The proportion of independent commissioners has a significant effect on financial statement fraud. Financial statement fraud has no effect on corporate litigation.

Limitations

SCORE models often rely on readily available and accessible data. In the mining industry, data relating to fraud may not always be complete or transparent, which can reduce the accuracy of the model. SCORE models may not take into account all variables that may influence litigation, such as external factors (e.g., regulatory changes or market conditions) and unique company characteristics. This can produce inaccurate results. SCORE models tend to focus on quantitative indicators and may overlook qualitative aspects, such as corporate culture or management ethics. Leadership quality and commitment to integrity can have a significant impact on litigation but are difficult to measure. The mining industry has unique characteristics and challenges, such as commodity price fluctuations and environmental issues, that can influence litigation. SCORE models may not fully reflect this complexity.

Responses to fraud may vary across stakeholders, including investors, governments, and society. The SCORE model may No catch nuance this, so that difficult For predict impact litigation in a way accurate . Financial reporting fraud and litigation can occur over different time periods. The SCORE model may not capture changes in time, including how the impact of fraud may evolve over time. The SCORE model may not adequately assess the true quality of financial reporting, resulting in errors in identifying potential fraud and its impact on litigation. Mining companies that have good regulatory compliance can reduce the risk of litigation despite fraud. The SCORE model may not adequately capture these mitigating factors. External events, such as economic crises or natural disasters, can significantly impact litigation. The SCORE model may not adequately account for these variables, which can cloud the analysis. Not all frauds have the same impact. The SCORE model may not adequately measure the severity of fraud and how it specifically impacts litigation.

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