Detecting of Bond Defaults Indications Using Financial Statement and Shenanigans Indicators

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Abstract

This study aims to detect indications of bond defaults by conducting a thorough analysis of PT Trikomsel Oke, Tbk (TRIO)'s financial statements. TRIO's financial statements show that the company's revenue and profits increased during 2009-2014. However, the Indonesia rating agency (PEFINDO) declared default on the two bonds issued by TRIO in November 2015, even though the signal TRIO gave to its financial statements was an unqualified opinion from one of the big 4 Public Accountants for six consecutive years and PEFINDO's investment grade. This study uses a case study method. The data used are secondary data and primary data analyzed using descriptive and comparative constant analysis. Financial report data are analyzed by financial ratios and financial indicators of shenanigans. Evidence shows that there are indications of creative accounting and shenanigans before bonds were declared defaulted in 2015. With these results, this study suggests investors and creditors be more vigilant in analyzing published annual reports.

Keywords: *Bond Defaults Indications, Financial Shenanigans, Financial Statement Analysis.*

1. Introduction

Debt is the primary funding source for companies throughout the world (Burgstahler, Hail, & Leuz, 2004). Funding in the form of bonds is carried out by PT Trikomsel Oke, Tbk (TRIO). TRIO is one of the public entities conducting business expansion by borrowing funds from banks, Initial Public Offering (IPO) in 2009 and issuing bonds amounting to SGD 115,000,000 in 2013 and SGD 100,000,000 in 2014. Both bonds were declared default by Rating Indonesian Securities (PEFINDO) on November 10, 2015 (Budipratama & Dito, 2015). TRIO gets an idA rating from PEFINDO. This rating has indicated that TRIO is worth for investment (PEFINDO, 2012). However, in December 2015, TRIO stated the inability to pay interest on bonds that had been issued in 2013 and 2014. Therefore, TRIO had to deal with the Central Jakarta Commercial Court to deal with Delaying Obligations of Debt Payment (PKPU) (Siregar, 2015). TRIO's inability to pay its debt obligations also affected PT Bank Negara Indonesia Tbk (BNI). According to BNI's 2017 director, Achmad Baiquni, BNI's largest non-performing loan (NPL) contributor in the first quarter of 2017 was TRIO (Republika, 2017).

During 2009-2014, TRIO was audited by the Ernst & Yong Indonesia (Auditor 1) with an *unqualified* opinion. Then on November 10, 2015, Kosasih, Nurdiyaman, Mulyadi, Tjahyo & Rekan (Auditor 2) were appointed as TRIO group auditors and gave disclaimer opinions for financial statement (FS) 2015. The reason for providing a disclaimer opinion that Auditor 2 did not have access to Auditor 1's working papers, though providing working papers information from previous auditor to new auditor is mandatory by Indonesia's audit standard 510 (IAPI, 2012). Previous research stated that TRIO's financial statements for 2009-2011 still showed a healthy EVA ratio and did not include entities that performed financial manipulations based on the 2013 and 2014 financial statement ratio analysis (Annisa, 2017; Hariadi, Topowijono, & Z.A, 2011). This study aims to explore more into how financial performance from 2009-2014 before it was declared defaulted in 2015.

This study focuses on the information contained in the company's annual report (AR) because the information is publicly accessible, and with those background, this

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study will address about how is the financial condition of the TRIO before it is declared a default if analyzed using financial ratio analysis and financial shenanigans indicators. The main objective of this study is to explore more into how TRIO's financial condition will be analyzed using vertical and horizontal financial ratio analysis and want to detect whether there are indications or red flag actions of shenanigans. There are 4 (four) benefits that can be obtained from a case study, namely to provide evaluation, analysis, provide solutions, and provide useful information for decisions (Ellet, 2007). This study contains 2 (two) benefits mentioned (Ellet, 2007), namely analysis and providing information for decision making. The benefit of this study is to provide an analysis of how the TRIO's financial condition before it was declared a default, and provide information for decision making for user of financial statement, especially for investors.

2. Literature Study

2.1 Signaling theory

Signaling theory is the based theory for this study. Signaling theory is a theory that helps explain behavior when two parties (individuals or organizations) get different access to information (Connelly, Certo, Ireland, & Reutzel, 2011). Signals are a sign that can change; therefore, the signaling activity is an activity that can be manipulated for the benefit of the signal giver (Spence, 1973). Signaling strategies are carried out by signatories to influence the way of thinking and behavior of the intended recipient of the signal. The signal giver must think about how to communicate the signal through the information disclosed, while the receiver of the signal, must think about how to interpret the message (Connelly et al., 2011). A signal receiver will be able to make better decisions if the signal provided contains more information disclosure good (Spence, 1973).

Information in the annual report is a signal given by the company. As a consequence, the message given will affect the perspective of users of financial statements (e.g. debtors and investors) in decision making (Connelly et al., 2011). The classic assumption in traditional economics is a perfect capital market or perfect capital market. However, it has become common knowledge that it is impossible for capital markets to work effectively and ideally; there must be imperfections in the capital market. The effectiveness of capital markets depends on the quality of information disclosed by the company to the public. Therefore, this study focuses on public information disclosed by TRIO as a signal to influence the decisions of investors and creditors in investing or providing loans to TRIO.

2.2 Shenanigans indicators

Financial Shenanigans are actions carried out intentionally by the management of a company that aims to mislead financial report users in analyzing the condition and financial performance of the company (Schilit & Perler, 2010). Users of financial statements can detect some shenanigans actions through financial position reports, profit and loss position reports, and cash flow statements. However, the activities of shenanigans may not be found in the published reports in the form of numbers. Therefore, the users of financial statements must also be careful in reading each sentence or information contained in the notes to the financial statements. Schilit & Perler, (2010) divides shenanigans into 3 (three) large groups, namely: (1) Earning manipulation shenanigans (EM shenanigans), (2) Cash flow shenanigans (CF shenanigans), and (3) Key metrics shenanigans (KM shenanigans).

There are 2 (two) groupings of shenanigans in EM shenanigans, namely inflating income in the present and inflating income in the future. Experienced investors already know that companies can take advantage of accounting accrual basis loopholes to manipulate income in financial statements. Therefore, investors begin to trust more in the calculation of cash flows reported in the form of corporate cash flow reports (Schilit & Perler, 2010). The management can manipulate CFFO by shifting the cash inflows that should be in investment activities or funding to operating activities, and vice versa shift the cash outflows that should be part of operating activities to investment or funding activities. Key metrics are particular ratios inherent in specific industries. To get a deeper understanding of the company's financial condition, financial report users must also pay attention to the key metrics in the financial statements. Two key metrics that are very relevant to retail companies such as TRIO are days sales outstanding (DSO) and days sales of inventory (DSI). DSO is used to see how many days a company needs to receive payment of receivables, while DSI is useful for measuring inventory turnover into sales.

2.3 Financial statement analysis

Qualified financial statements will represent the financial condition and performance of the company fairly and adequately (Tang, Chen, & Lin, 2012). The information contained in financial statements can also influence investor behavior in determining the selection of investment portfolios. Financial statements are used by investors as outsiders to try to explore "information in" companies (Palepu & Healy, 2008). Therefore, qualified financial statements are essential for every investor as a consideration for decision making. Financial statement should be analyzed first. The primary objective of the analysis is to evaluate the effectiveness of the company's performance in terms of operations, investment, and funding. Although financial ratio analysis cannot reflect the overall financial condition of the company, by carrying out this analysis, investors can make judgments and further investigations regarding the company's financial condition. Thus, this study will analyze whether there is an action of shenanigans for more in-depth investigations.

3. Research Methodology

This study uses a writing strategy in the form of a case study. Case studies are studies that focus on extracting a particular event, which has a uniqueness and complexity, in greater depth (Yin, 2009). The research method used is mixed-method. Mixed-method is a combination of methods between qualitative and quantitative methods in a research project (Biber, 2015). The use of a mixed method allows a study to produce more abundant explanations and can provide more reliable answers to each research question (Shauki, 2018). This method was chosen because in data collection and processing will use a quantitative approach that is by involving numerical analysis in the form of financial statement ratios, while in the analysis of words will use qualitative methods. In-depth interviews were also used in this study to strengthen the analysis of secondary data. The qualitative approach is the dominant approach in this study, while the quantitative approach is a complementary approach that helps in qualitative descriptive analysis.

Data collection in this study uses secondary data and primary data. Secondary data used is TRIO’s AR from 2009-2014 which has been published on the website idx.co.id or the TRIO website, while the primary data is the result of in-depth interviews with 4 (four) respondents. The collected secondary and primary data will be analyzed using qualitative descriptive analysis and constant comparative. The constant comparative approach is used in interpreting the consistency between the transcripts of the interview results and the analysis of financial statements. This method is used to see a constant loop between one data and other data, making it easier for researchers to see the pattern and theme of information (Neergaard & Leitch, 2015).

The unit of analysis in this study uses a single unit analysis on one public company, TRIO. TRIO is a cellular telephone distributor company that started its IPO in 2009 and issued bonds in 2013 and 2014. Since the IPO until 2017, TRIO's president director is Sugiono Wiyono Sugialam (Sugiono). According to Frost and Sullivan in (Sucorinvest, 2013), TRIO is the leader in the cellular phone distributor market with a market share of 39% in 2013, while the second largest market share is Erajaya (ERAA) of 32% (Erajaya, 2018). With a total market share of 71%, TRIO and ERAA are major players in the retail cellular phone sales industry.

The financial overview presented by TRIO in the 2014 LT shows that since 2009, company revenues and profits have increased in each year, Figure 1 below shows the trends in corporate earnings and profits:

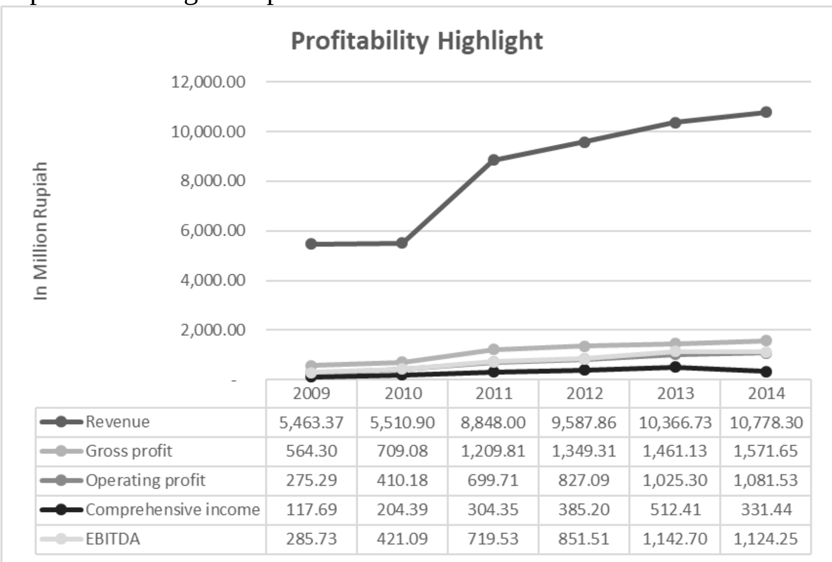

Figure 1 TRIO Profitability Highlight

Seen from the graph of company's profitability highlight, TRIO experienced a trend of an increase in operating profit. Further, the company's comprehensive profit grew by 27% in 2012 and 33% in 2013.

4. Results

This chapter will discuss the findings and discussion of a phenomenon that has been explained in previous sections. The findings will be divided into an analysis of the company's financial statements for 2009-2014 and analysis of the results of interviews of 4 (four) respondents. The two research instruments will be analyzed using a constant comparative approach in the discussion section.

4.1 Document analysis – financial statement analysis for period 2009-2014

The level of profit and business growth decide the value of the company (Palepu & Healy, 2008). Financial statements that can meet investor expectations such as increases in sales, profits, and business growth are things that management wants to convey through published financial reports. Therefore, the company's financial statements are signals given by management to investors and creditors. However, the profit growth was not in line with economic conditions and the growth rate of TRIO's main competitors, namely ERAA. If we want to analyze whether there are *red flags* in a company's financial performance, we should consider competitors' performance in the same industry and current economic conditions (Palepu & Healy, 2008; Schilit & Perler, 2010). Here is a comparison of TRIO and ERAA's profit levels:

Table 1 NIM comparation between TRIO and ERAA

	Formula	2011	2012	2013	2014
TRIO	Net income/Net Sales	48.3%	21.0%	30.0%	4.0%
ERAA		17.3%	60.9%	-12.7%	-39.4%

Each AR will present the directors' explanation regarding the company's financial performance for the current year. In 2013, when the ERAA recorded a decrease in net profit of -12.7%, TRIO recorded a 30% increase in its profits. Whereas in 2013, the economic conditions of developing countries or emerging markets were in recession due to a statement from the US Federal Reserve's governing council congress (The FED) stating that The FED would be tapering for bond purchases (Sahay, Arora, Arvanitis, & Faruqee, 2014) . Indonesia as one of the EM countries was also significantly affected by the growth of Indonesia's Gross Domestic Product (GDP) which fell from 6.23% in 2012 to 5.78% in 2013.

In obtaining an understanding of the company's financial performance, the ratio analysis carried out is a vertical and horizontal ratio analysis by comparing the company's financial ratios during the years 2009-2014. Following are the financial ratios and profitability of TRIO in 2009-2014:

Table 2 Income Statement Analysist And Profitability

	2009	2010	2011	2012	2013	2014
Line item of percentage of sales						
Sales	100%	100%	100%	100%	100%	100%
% growth of sales y-o-y		*0.9%*	*60.6%*	*8.4%*	*8.1%*	*4.0%*
Interest revenue	0.066%	0.031%	0.018%	0.012%	0.016%	0.013%
interest expense	1.779%	1.956%	2.050%	2.406%	3.412%	6.024%
tax expense	0.85%	1.37%	1.60%	1.64%	1.67%	1.06%
Line expense and income as percentage of sales						
COGS	-89.67%	-87.13%	-86.33%	-85.93%	-85.91%	-85.42%
% growth of COGS y-o-y		*-1.98%*	*59.07%*	*7.86%*	*8.10%*	*3.38%*
Selling and distribution expense	-5.29%	-5.42%	-2.61%	-3.37%	-4.92%	-5.00%
General and administration expense	0.00%	0.00%	-3.46%	-3.47%	-2.75%	-2.74%
Depreciation expense	-0.19%	-0.20%	-0.22%	-0.25%	-1.13%	-0.40%
Other income	0.00%	0.00%	0.46%	1.42%	3.48%	3.20%
Other expense	0.00%	0.00%	-0.16%	-0.02%	-0.02%	-0.01%
Profitability ratio						
Gross profit margin	10.3%	12.9%	13.7%	14.1%	14.1%	14.6%
% growth of gross profit y-o-y		*25.7%*	*70.6%*	*11.5%*	*8.3%*	*7.6%*
EBIT margin	5.04%	7.44%	7.91%	8.63%	9.89%	10.03%
% growth of EBIT y-o-y		*49.0%*	*70.6%*	*18.2%*	*24.0%*	*5.5%*
Net income margin (NIM)	2.15%	3.71%	4.30%	4.61%	4.82%	2.99%
% growth of net profit y-o-y		*73.67%*	*86.21%*	*16.18%*	*13.07%*	*-35.48%*
EBITDA margin	5.23%	7.64%	8.13%	8.88%	11.02%	10.43%
% growth of EBITDA y-o-y		*47.37%*	*70.87%*	*18.34%*	*34.20%*	*-1.61%*
ROA	6.04%	8.54%	8.13%	8.27%	6.07%	3.56%
% growth of ROA y-o-y		*41.37%*	*-4.80%*	*1.71%*	*-26.63%*	*-41.32%*
ROE	17.12%	23.91%	29.92%	24.01%	24.64%	13.59%
% growth of ROE y-o-y		*39.65%*	*25.14%*	*-19.75%*	*2.63%*	*-44.85%*

TRIO's profitability level began to experience a slowdown during 2012-2014. The gross profit margin in 2012-2013 is flat at around 14%, with the rate of sales growth also likely to stagnate at 8.2%. However, as a percentage of year-on-year (YoY) growth, TRIO's gross profit dropped to 8.3% in 2013 from 11.5% in 2012. The thing investors need to explore is when gross profit has decreased, the EBIT margin has increased by 24% YoY. Table 2 be shows that the increase in EBIT margin in 2013 was a result of a decrease in the percentage level of general and administrative expenses for sales in 2013 to -2.75% from -3.47% from 2012.

The decrease in the percentage of general and administrative expenses in 2013 compared to 2012 is a matter of suspicion because the notes of the FS 2013 state that there was an increase in general and administrative expenses (GA expense) of IDR104 billion from 2012. The notes also stated that increasing IDR104 billion in 2012 resulted in increasing balance of GA expense from IDR333 billion in 2012 to IDR436 billion in 2013. The balance of GA expense stated in FS 2013 is different with balance stated in FS 2014. The presentation of the balance of GA expenses in 2013 disclosed in the FS 2013 differs from the presentation of the same account balance disclosed in the FS 2014. The 2013 GA balance in the FS 2013 is IDR436.45 billion, while the balance of the 2013's general expenses balance on the FS 2014 is IDR285.5 billion.

Analysis of income quality

Quality of income determines the sustainability of a company (Palepu & Healy, 2008). In 2012 the growth of NIM was also not in line with ROE growth. The cause of when the NIM grew positively by 16.18% in 2012, ROE grew negatively -19.75% is due to incremental retained earnings in 2012 was 2.14x higher than the company's net profit after being reduced by cash dividend distribution. Table 2 shows that sales and net income margin (NIM) continued to increase from 2009 to 2013, but the growth in NIM not in line with the growth of ROA. Performance in 2011 was no better because the increase in NIM of 86.21% in 2011 resulted in negative growth ROA at -4.80%, as well as in 2013 when NIM grew positive 13.07%, ROA growth was negative -26.63%. This condition is an indication that adding assets is less effective in generating profits for the company. Since 2010, the addition of TRIO's total assets is quite significant, along with details of growth and percentage of composition of TRIO's assets compared to total assets as stated below:

Table 3 Growth of Current and Non-Current Asset

TRIO	2010	2011	2012	2013	2014
% Growth of current asset yoy					
cash and equivalent	-11.1%	166.6%	74.7%	45.2%	20.0%
account receivable	86.4%	110.9%	11.8%	38.7%	5.7%
Inventories	-2.67%	123.53%	15.15%	105.85%	-34.05%
Prepaid expense	-12.60%	48.52%	26.44%	9.20%	9.99%
Advance payment	33.57%	64.43%	16.56%	3.35%	44.87%
Current asset	27.55%	101.67%	14.17%	55.35%	5.02%
% Growth of non current asset yoy					
Fixed asset	87.30%	32.56%	4.10%	1.78%	14.49%
Total non Current asset	-21.49%	2.60%	15.64%	17.70%	202.74%
% Growth of total asset	23%	96%	14%	54%	10%

Table 4 TRIO's Current and Non-Current Asset As Percentage of Total Asset

TRIO	2009	2010	2011	2012	2013	2014
% of Total Asset						
cash and cash equivalent	4.36%	3.15%	4.30%	6.57%	6.19%	6.76%
account receivable	16.36%	24.82%	26.77%	26.21%	23.59%	22.68%
Inventories	29.42%	23.31%	26.64%	26.86%	35.87%	21.52%
Advance payment-current asset	36.15%	39.24%	32.76%	33.43%	22.42%	29.54%
Advance payment-non current asset						2.67%
Fixed asset	2.13%	3.24%	2.20%	2.00%	1.32%	1.38%

From Table 4, we see that the most significant portion of TRIO's assets is an advance payment account. The down payment is used for advances in purchasing inventory, so about 30% of TRIO's assets are down payment. Table 5 follows a percentage of the asset components in the ERAA:

Table 5 ERAA's Current and Non-Current Asset As Percentage of Total Asset

ERAA	2009	2010	2011	2012	2013	2014
% of Total Asset						
cash and cash equivalent	3.00%	4.61%	2.43%	6.46%	1.61%	3.93%
account receivable	47.78%	39.10%	28.19%	27.65%	18.01%	29.06%
Inventories	23.78%	31.20%	26.98%	31.96%	36.82%	46.31%
Advance payment-current asset	13.86%	9.43%	5.28%	1.26%	9.06%	2.85%
Advance payment-non current asset	N/A	N/A	N/A	N/A	N/A	N/A
Fixed asset	1.02%	4.81%	3.72%	4.72%	4.32%	9.32%

A very significant difference is in the receivable accounts and advances. Percentage of advances to total assets in TRIO reached 30% while in ERAA, the average rate is less than 10%. The largest asset percentage of ERAA is trade accounts receivable and inventory with an average rate of 30% during 2009-2014. This condition is an irregularity because the most significant asset component is down payment for inventory purchases, and not trade accounts receivable which should be the main component in a company. This condition also indicates that the addition of advances payment is not effective in generating additional revenue for the company. Therefore, TRIO's ROA grew negative when NIM grew positive.

From the asset component information in Table 5, there are indications of the action of shenanigans. Schilit & Perler (2010) states that investors must be vigilant if the company suddenly changes the classification of accounts because it can indicate a shift of current expense to the future. In 2014, TRIO add accounts for advances with maturities of more than 1 (one) year in non-current-assets side. So that in 2014, the down payment account for the purchase of inventory is classified in both current and non-current assets. The addition of a down payment account to non-current-assets side was the largest component that caused non-current-assets to grow 203% in 2014. In addition, the addition of the classification of down payment accounts in non-current-assets side is not commonly used by the industry.

Analysis of cash flow, assets, and income statement reports

To identify the potential of red flags on the FS thoroughly, investors must include a component of cash flow performance to compare the performance of the income statement and the company's financial position report. The most critical cash flow statement performance is CFFO (Palepu & Healy, 2008). Recording of income in the loss report uses the accrual accounting method. Therefore, the company's income depends heavily on management assumptions and policies. The following Table 3.6 is TRIO's CFFO report from 2009-2014:

Table 6 CFFO and Growth of Sales and Account Receivables

(In Million Rupiah)	2009	2010	2011	2012	2013	2014
CFFO						
Cash received from customers	5,294.93	5,232.44	8,191.28	9,434.64	10,202.78	10,671.83
% change yoy		***1.18%***	***-56.55%***	***-15.18%***	***-8.14%***	***-4.60%***
Cash paid to suppliers	(5,382.08)	(5,145.02)	(8,692.17)	(8,593.69)	(10,224.81)	(9,553.35)
% change yoy		***4.40%***	***-68.94%***	***1.13%***	***-18.98%***	***6.57%***
Cash paid to employees	(92.44)	(120.52)	(194.09)	(224.57)	(258.94)	(302.66)
Payments of operating expenses	(264.13)	(190.64)	(423.04)	(411.71)	(525.01)	(374.93)
Cash received from (used in) operations	(443.71)	(223.74)	(1,118.02)	204.67	(805.97)	440.89
Interest Income	-	-	-	-	1.67	1.39
Payments of corporate income tax	(85.23)	(67.64)	(56.98)	(150.33)	(228.44)	(279.28)
CFFO - net	(528.94)	(291.38)	(1,175.00)	54.34	(1,032.75)	163.00
% change yoy		***44.91%***	***-303.25%***	***104.62%***	***-2000.46%***	***115.78%***
% growth of sales yoy		***0.9%***	***60.6%***	***8.4%***	***8.1%***	***4.0%***
% growth of AR yoy		***86.4%***	***110.9%***	***11.8%***	***38.7%***	***5.7%***

Cash flow statement records using the cash basis method. Therefore, for investors, cash flow statements are judged to be more reliable than company earnings reports.

From Table 6 above there are several red flags that indicate the EM and CF shenanigans action occurred as stated below:

1. Table 6 showed the peculiarities when accounts receivable grew 111% and 39%, CFFO dropped -303.25% and -2000%, as well as when the growth of accounts receivable was only 12% and 6%, CFFO growth could reach 104.62% and 115.76%. Investors must be vigilant when increasing the company's trade receivables increases rapidly and significantly because this can be an indication of the deteriorating health of the company's finances. This indication is found in TRIO, especially if the increase in trade receivables is not in line with the growth of CFFO. This incident can be an indication that the company is too aggressive in making credit policy (Palepu & Healy, 2008) or there are indications of recording fictitious receivables on the company. This condition is also a major concern for Respondents 2 who stated that negative CFFO for 4 (four) years when the company declare profits was uncommon practice as long as Respondent 2 became an equity analyst in the capital market,
2. investors must also pay attention to the sudden swing that occurs in CFFO. In 2012 and 2014, there was a very significant surge in CFFO. CFFO in 2012 increased 104.62% from negative IDR-1,175 billion in 2011 to positive IDR54.34 billion in 2012, even though trade receivables only grew 11.8%. The same thing happened in 2014, namely when CFFO increased significantly by 115.78% in 2014 from negative CFFO of IDR-1.032 billion in 2013 to positive IDR163 billion in 2014,
3. Every year TRIO adds the value of its asset, and the largest component of its asset is advances for inventory purchases since 2009-2014 (Table 4). This action can be an indication of the activity of shenanigans to increase current income by shifting the expense to the future. This method is an indication that management try to capitalize expense into asset or improper capitalization. A sign of improper capitalization is when a significant increase in assets accompanies a considerable rise in NIM. Adding an advance account to non-current assets can also be an indication that the company wants to amortize costs with a more extended period. In this way, the company can reduce the operating burden that should be charged this year, so the primary objective is to increase the company's CFFO,

Management discussion is the message from management to explain the company's financial and operational conditions. Every year the disclosure format in the management discussion is more-or-less the same, except for numbers and performance movements compared to previous year. Management's discussion expressed by TRIO through its 2009-2014 AR are focused more on discussions about increasing revenue or company profit margins, while in the cash flow discussion section, management did not discuss why operating cash flows were negative. Management only states that net cash flows continue to increase every year.

TRIO's ability to collect revenue and sales of inventory is almost the same as ERAA only in 2010. After 2010, TRIO's ability to collect revenue from sales declined, as the results of the calculation of the DSO is getting longer. The DSO TRIO calculation explains that TRIO requires more than 2 (two) months to collect revenue, while ERAA can collect revenue from customers twice faster, which is about 1 (one) month. The results of the calculation of TRIO's DSI also indicate that it takes an average of more than 2 (two) months for TRIO to sell its inventory. Even in 2013, TRIO's inventory turnover reached around 120 days.

Table 7 Comparison of DSO and DSI between TRIO and ERAA

	Formula	2009	2010	2011	2012	2013	2014
TRIO							
DSO	Account receivables/(Net Sales x 365)	21.30	39.35	51.71	53.36	68.46	69.61
DSI	Inventories/(COGS x 365)	42.72	42.42	59.61	63.64	121.19	77.31
ERAA							
DSO	Account receivables/(Net Sales x 365)		39.54	43.69	30.45	25.83	31.70
DSI	Inventories/(COGS x 365)		35.43	46.90	38.63	58.16	55.46

The results of the DSO calculation can be the reason why CFFO can result in negative value when sales and accounts receivable increase significantly. The higher the DSI results, the longer the inventory is stacked in the warehouse. The results of the DSI calculation also indicate that inventory growth is higher than sales growth. The results of the TRIO's DSO and DSI calculations also indicate something that is not reasonable, such as when DSO continues to increase, TRIO continues to add to its asset components. This is also in line with the previous analysis, which is why when ROA growth is negative, NIM growth positive.

3.2 Interview Analysis

The in-depth interviews in this study aimed to strengthen the analysis of financial statements and indications of the action of shenanigans in the TRIO financial statements for 2009-2014. There are 4 (four) respondents (R) in this study, R1, R2, R3, and R4. The four respondents were chosen because they were practitioners in the field of auditing and capital markets. R1 and R2 are senior auditors of 2 (two) different *big four* Public Accounting Firm. R3 and R4 are analysts as well as investors in stocks and bonds. R3 has a career in the capital market for 7 (seven) years and now serves as an equity fund manager, while R4 has 9 (nine) years in the capital market and served as an investment analyst

This phenomenon becomes interesting because there is a disclaimer opinion from Auditor 2 because Auditor 2 does not get access from the Auditor 1. This raises the suspicion that there are indications of manipulation in the financial statements previously published by Auditor 1, because it actually complies with audit standards 520 (IAPI, 2012) the old auditor must submit the WP to the new auditor to help the new auditor to believe the ending balance figures for the previous year, as stated by (Respondent 1, 2019) :

"It seems strange, because if there's nothing why Auditor 1 did not give the working papers to a new auditor, it's already set in SPAP ..."

The R1's statement is the same as the statement of the other three respondents, which essentially states that there are indications of financial report manipulation before the company's debt is declared a default.

Analysis of financial statements must be carried out by investors before investment decision making, even though the financial statements obtain unqualified opinions. R2, R3, and R4 state that there are several ratios and economic conditions that must be analyzed before decision making. The essential ratio and financial situation that investors pay attention to is the profitability ratio and conditions of the company's CFFO, as stated by (Respondent 3, 2019) as follows:

"In the last five years before there was a problem in Trikomsel itself, the company made profits that showed positive growth, but the strange thing here is when profits continue to increase each year, but the cash flow from operation for a few years is negative. If CFFO up to three years continues to be negative, it's already quite extreme; there must be something wrong in the balance sheet ... "

Analysis of a company's financial statements must involve a review of its competitors or industry (Respondent 4, 2019). Therefore, this study uses a comparison of financial statement analysis from TRIO's biggest competitors, namely ERAA. So, we compare the NIM ratio of TRIO to ERAA as in Table 1, R4 states that there is an oddity if when the competitor's NIM falls, TRIO's NIM experienced a significant increase in the middle of not-so-good economic condition, as stated by (Respondent 4, 2019) below:

".yeah, it's strange, because, with the country's conditions were slowing down, TRIO's profit can increase by 30%, there was the taper tantrum in 2013, and our GDP also decreased from the previous year "

Comparison of other ratios that must be considered by investors is the percentage of the asset component to total assets (Table 3) between TRIO and ERAA. The most significant difference is the percentage of advance payment for total assets. It includes an indication of an act of shenanigans, which is to capitalize the expense into an asset (Respondent 3, 2019). Further, the nature of advance payment should be as current asset, instead of classified as current and non-current asset as TRIO did (Respondent 2, 2019). The indication of the cause of CFFO is negative even though the profit always grows positively is the result of calculation of DSO and DSI TRIO which reach 2 (two) times the same ratio calculation in the ERAA. R2, R3, and R4 state that adding inventory to TRIO is not effective in generating income and the credit provided is also not effective in making cash for the company.

The results of the DSI calculation show an improper indication because when there is still a lot of inventory that has not been sold, TRIO continues to add advance payments to buy inventory (Table 3). Indications of this peculiarity are also disclosed by the following (Respondent 3, 2019):

"... precisely that, it is precisely the oddity that is right there, it might be because this company is inefficient, or can't sell its inventory, or there are other things that suspicious..."

From the results of these interviews, we conclude that the respondents' statements are in line with the analysis of the company's financial statements.

5. Discussion

The results of the interview in this study served to support the results of the analysis of the company's financial statements from 2009-2014. The analysis of the two research instruments was processed using constant comparative to answer research questions and summarized in the following table:

No	Financial Statement Analysis	Interview
1	The ratio and indicator that most investors must watch out for are when there is an increase in the profitability ratio and the level of accounts receivable, CFFO is negative (Table 5). The results of the analysis indicate that the TRIO's operational activities cannot generate cash for the company	The profitability ratio that is not in line with CFFO is also a highlight of all respondents. For R3 and R4, CFFO is an essential indicator in determining investment decisions**.**
2	Growth in profitability is not in line with ROA growth (Table 2). It indicates that the addition of assets is less effective in generating profits for the company.	R3 stated that the advance payment composition and TRIO's inventory of total assets averaged 50% per year, meaning that each year TRIO increased the number of

		advance payments so that total assets grew larger than profit growth. It can be the reason why negative ROA grows when profits grow positively
3	Increasing in TRIO's profitability in 2013 was not in line with economic conditions and inversely proportional to the ERAA (Table 1).	R3 and R4 state that a company's performance in the same industry should not be much different and should be in line with economic conditions. The increase in NIM by 30% in 2013 was odd because in 2013 there was a tapper tantrum
4	The material lagging between the growth of accounts receivable and CFFO indicates the existence of Shenanigans EM actions in the form of recording fictitious receivables or companies too aggressive in determining credit policies to consumers.	R3 states that the negative value of CFFO for 4 (four) years when accounts receivable and significant profitability rise is extraordinary and suspect because it indicates management is too aggressive in recognizing accounts receivable
5	There is an indication of improper capitalization, namely when a significant increase in an asset accompanies considerable growth in the NIM. In the case of TRIO, the most significant asset component is advance payment, even in 2014 the account was recorded in both current and non-current assets	R2 stated that based on its nature, advance payment accounts for inventory purchases are should be recorded in current assets accounts.
6	The result of the calculation of DSO and DSI TRIO is 2 (two) times longer than ERAA (Table 6). It also raises suspicion because why when inventory turnover is slow, as indicated by the results of a longer DSI compared to ERAA, TRIO continues to increase inventory and advance payment for inventory purchases.	R3 and R4 state that the results of the DSI TRIO calculation indicate irregularities because TRIO continues to increase the amount of inventory even though the inventory turnover is slow.

The signal giver has an interest so that the signal receiver can process the signal given following the expectations of the signer. TRIO is the company with the largest market share in its industry in 2013, obtained WTP opinion while being a public company, and received an idA rating from PEFINDO. The achievement and excellent performance displayed by TRIO to the public is a signal that management wants to convey to investors and creditors. In this case, the investor and creditor mean that they are not careful in analyzing the messages given by TRIO. Therefore, investors and creditors as recipients of signals must return to processing the information provided by the ratio analysis of financial statements, specifically the analysis of CFFO and the quality of company earnings.

6. Conclusion

This study aims to provide an analysis of financial performance, and an indication of the action of shenanigans in TRIO financial statements before the bonds issued was declared defaulted in 2015. TRIO's profitability continues to increase during 2009-2014, but what investors and creditors should be suspicious of is when sales experience increase, CFFO is negative. Also, there are indications of the action of shenanigans both in terms of EM Shenanigans, CF Shenanigans, and KM shenanigans which have been explained in the findings and discussions. With the results of the analysis, it can be concluded that investors, as signal recipients, must return to processing the signal messages given by the company more thoroughly. This study is expected to increase investors' insight in conducting financial ratio analysis and detect indications of shenanigans through financial statements.

This study takes a public perspective and focuses on analyzing published annual reports and analysis from capital market analysts. Therefore, this study does not discuss indications of default from within the company. Further research can take a perspective from within the company so that it can explore the phenomenon of internal control of the company. Through this study, the investor and creditors could be more aware and vigilant in analyzing a financial statement, especially in quality earning, CFFO, and business' key metrics.

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