

The Influence of Corporate Governance Mechanisms on Financial Reporting Fraud (A Study on Property & Real Estate Sector Companies Listed on IDX in the Years 2018-2022)

Dewi Aryani^{1*}, Afrizal², Yuliusman³

Universitas Jambi

Corresponding Author: Dewi Aryani aryani3005@gmail.com

ARTICLE INFO

Keywords: Corporate Governance Mechanisms, Financial Statement Fraud, Fraud, Logistic Regression Analysis

Received: 7 May

Revised: 20 May

Accepted: 23 June

©2023 Aryani, Afrizal, Yuliusman: This is an open-access article distributed under the terms of the [Creative Commons Attribution 4.0 International](https://creativecommons.org/licenses/by/4.0/).



ABSTRACT

The objective of this study is to investigate the impact of corporate governance mechanisms on financial statement fraud. The study focuses on board of commissioners, independent commissioners, managerial ownership, institutional ownership, and audit committees. Purposive sampling is used, targeting property and real estate companies listed on the Indonesian Stock Exchange from 2018 to 2022. The sample consists of 16 companies, resulting in a total of 80 data points over a 5-year period. Data analysis techniques include descriptive statistics and logistic regression analysis using SPSS software version 26. The findings reveal that the audit committee plays a positive role in preventing financial statement fraud, while the other factors examined do not exhibit significant influence

INTRODUCTION

Companies usually release financial statements on a scheduled basis, providing details about their financial position, performance, and cash flow. These statements serve the purpose of offering crucial information to individuals and entities needing it to make informed economic choices. The Indonesian Institute of Accountants has set forth the Indonesian Accounting Standards (SAK) as guidelines for the preparation of these financial statements.

When a company fails to meet its set targets, it may resort to fraudulent activities to hide these failures. According to the "fraud tree" established by the Association of Certified Fraud Examiners (ACFE, 2022), financial reporting fraud can be categorized into three types: corruption, asset misappropriation, and financial statement fraud. Financial statement fraud specifically involves intentionally manipulating financial statements with deceitful intentions.

Several cases of financial statement fraud can be found in business practices. One example is the case of fraud committed by PT Hanson Internasional Tbk in 2016. The company engaged in manipulation of accounting related to the sales of ready-to-build plots, which resulted in an unjustifiable increase in the company's revenue. As a result, the Financial Services Authority (OJK) imposed fines on the company and its director. Another case is the fraud committed by PT Bakrieland Developmet Tbk in 2013. The company failed to disclose its actual long-term obligations in its financial statements related to bond debt owed to the Bank Of New York Mellon. This led to the company filing for a Suspension of Debt Payment Obligations (PKPU). This violation was not disclosed in the financial statements, which should have been done as a publicly listed company.

These instances of fraudulent activities serve as evidence of inadequate corporate governance practices. Effective corporate governance is essential in mitigating fraud risks. Corporate governance plays a vital role in safeguarding the interests and rights of stakeholders. Proxy measures such as audit committees, independent commissioners, managerial ownership, institutional ownership, and boards of commissioners are indicators of corporate governance that can impact the occurrence of financial statement fraud within a company.

Instituting sound corporate governance practices is a critical measure to mitigate fraud. This entails adopting corporate governance principles that emphasize robust oversight mechanisms, including the appointment of independent commissioners responsible for supervising management decisions.

The primary focus of this study centers around companies operating within the real estate and property sector that are listed on the Indonesia Stock Exchange (BEI). The Association of Certified Fraud Examiners (ACFE) identifies five sectors globally that encounter the most substantial financial losses. Among these sectors, the real estate sector experiences the highest losses, amounting to USD 435,000/IDR 6.6 billion. It is observed that larger companies with a larger workforce generally exhibit a higher susceptibility to fraud compared to smaller companies with fewer employees (ACFE, 2022).

Additionally, the researcher chose the Property & Real Estate sector listed on the BEI as the object of study because this sector has not been extensively

researched before. Most previous studies have been conducted in the manufacturing sector. Therefore, the researcher is more interested in selecting this sector and producing more accurate conclusions.

LITERATURE REVIEW

A. Agency Theory

The fundamental theory that forms the basis for comprehending the concept of corporate governance is agency theory. The agency theory explains the importance of owners of a company delegating the management of their company to professional individuals, commonly referred to as agents. As stated by Jensen & Meckling (1976:308), agency theory revolves around the contractual relationship between a principal and an agent. The theory posits that individuals, driven by their inherent self-interest, tend to prioritize their personal goals, thereby giving rise to conflicts of interest between the principal and the agent. These conflicting objectives create a divergence of interests between the agent and the principal. This disparity in goals leads to the occurrence of asymmetric information between the two parties. This condition arises because managers possess more comprehensive information about the company compared to the information received by investors, which in turn encourages managers to withhold certain information from investors.

B. Fraudulent Financial Reporting

Instances of fraudulent financial reporting can be categorized into two main types: financial and non-financial. As defined by the Association of Certified Fraud Examiners (2022), fraudulent financial reporting refers to misconduct committed by management involving significant misrepresentation. These misrepresentations are typically carried out deliberately with the intent to deceive users of financial statements. The study's definition of fraudulent financial reporting encompasses two specific types. The first type involves instances where management intentionally provides misleading financial information that is material to external users of the statements. The second type encompasses cases of asset misappropriation by top-level management, including chairpersons, vice-chairpersons, chief executive officers, presidents, chief financial officers, and treasurers (Beasley, 1996, P.445).

In this study, the dependent variable is financial fraud. Fraud is a deliberate act undertaken with the aim of obtaining financial gains through various means that can negatively impact the decisions of others. To assess whether a company is involved in fraudulent activities or exhibiting fraudulent behavior, the Beneish M-Score is employed. This method is utilized to gauge the likelihood of a company engaging in earnings manipulation. (Beneish et al., 2012,P.32). When the Beneish M-Score exceeds -2.22, it indicates potential manipulation of the financial statements. Conversely, if the M-Score falls below -2.22, it suggests that the company is less likely to have manipulated its earnings. In this study, a binary variable is generated: "1" represents companies identified as manipulators, while "0" denotes non-manipulators. The identification of companies engaged in financial fraud is accomplished through the implementation of the Beneish M-Score model, which incorporates various

financial ratios. These ratios encompass the Days Sales Inreceivables Index, Gross Margin Index, Asset Quality Index, Sales Growth Index, Total Accrual to Total Assets, Depreciation Index, and Sales General and Administrative Expenses Index.

C. Corporate Governance Mechanisms

As stated by the Forum for Corporate Governance in Indonesia (FGCI, 2001), corporate governance refers to a framework of rules and guidelines that oversee the interactions between shareholders, company management, creditors, government, employees, and other internal and external stakeholders. It establishes a system that regulates and governs the operations of the company, ensuring proper control and oversight. The process aims to guide and supervise intentional business operations to accomplish company goals, align company conduct with societal expectations, and uphold accountability to shareholders. Corporate governance commonly pertains to a collection of mechanisms that impact decision-making by managers when there is a division between ownership and control. These controls encompass the functions of the board of directors, institutional shareholders, and market-based control mechanisms (Larcker et al., 2005, P.3). The execution of corporate governance is a collective effort involving all stakeholders within the company, with a significant role played by the top management. The top management, being vested with authority, assumes the responsibility of formulating and implementing company policies.

D. Board of Commissioners

Broadly speaking, the board of commissioners is entrusted with the task of overseeing the accuracy and reliability of the information presented in the financial statements. As the number of board members increases, the supervisory function of the board of directors experiences a notable improvement, thereby enhancing the management's effectiveness in preventing fraud within the company. (Priswita & Taqwa, 2019, P.8). The board of commissioners variable is calculated using the formula: Board of Commissioners (BC) = Total number of board of commissioners members present.

E. Independent Commissioners

Independent commissioners play an integral role within the company, tasked with supervising managers to ensure their adherence to reporting financial statements and the effective implementation of corporate governance standards. It is crucial for independent commissioners to possess the ability to act independently. The selection of independent commissioners is directly determined by shareholders during the General Meeting of Shareholders (GMS). Independent commissioners are individuals serving on the board who maintain independence by lacking financial, managerial, ownership, or family ties with other board members, the board of directors, controlling shareholders, or any other connections that could potentially compromise their independent judgment and decision-making capabilities. (Triyani et al., 2019).

External commissioners do not have interests in the internal parties of the company, which enables them to conduct more independent supervision. This promotes more effective oversight of the company, reducing the opportunity for

fraudulent activities to occur. The measurement of this variable is adopted from a previous study (Kurniawan et al., 2020,P.9):

Independent Commissioners (IC) = (Number of Independent Commissioners) / (Total Number of Board of Commissioners)

F. Managerial Ownership

Managerial ownership pertains to the situation where shareholders also hold managerial positions within a company, aligning their interests with the company's performance. A higher level of managerial ownership within a company fosters the cultivation of optimal performance and serves as a motivating factor for managers to exercise prudence, as they bear the repercussions of their decisions. Through the alignment of interests between managers and shareholders, managerial ownership can diminish the likelihood of managers participating in financial statement fraud.

Managerial ownership is determined by the quantity of shares held by the company's management team. This ownership can help align and harmonize interests (Shaqila, 2021,P.7). The managerial ownership variable is calculated using the formula:

Managerial Ownership (MO) = (Number of shares owned by management) / (Total number of shares outstanding)

G. Institutional Ownership

Institutional ownership refers to the proportion of stock ownership held by institutional investors, which includes entities like investment firms, banks, insurance companies, and other institutional entities. Institutional investors can be classified into two categories: active investors and passive investors. Active investors actively engage in and participate in managerial decision-making, whereas passive investors are less inclined to be involved and generally adopt a more passive approach to managerial decision-making.

Institutional ownership refers to the proportion of shares held by institutions and significant blockholders. In this study, institutional ownership is measured according to Shaqila (2021:7):

Institutional Ownership (IO) = (Number of shares owned by institutions) / (Total number of shares outstanding).

H. Audit Committee

The audit committee is a compact team within a company's board of directors, distinct from its members. Its purpose is to bolster supervision over the company's operations, ensuring utmost safeguards for shareholders and other interested parties. The audit committee comprises individuals chosen from the board of commissioners, and their main duty is to support auditors in upholding their independence from the management. According to Taufiq et al. (2014:7), the measurement of the audit committee is conducted using the indicator:

Audit Committee (AC) = Number of members in the audit committee

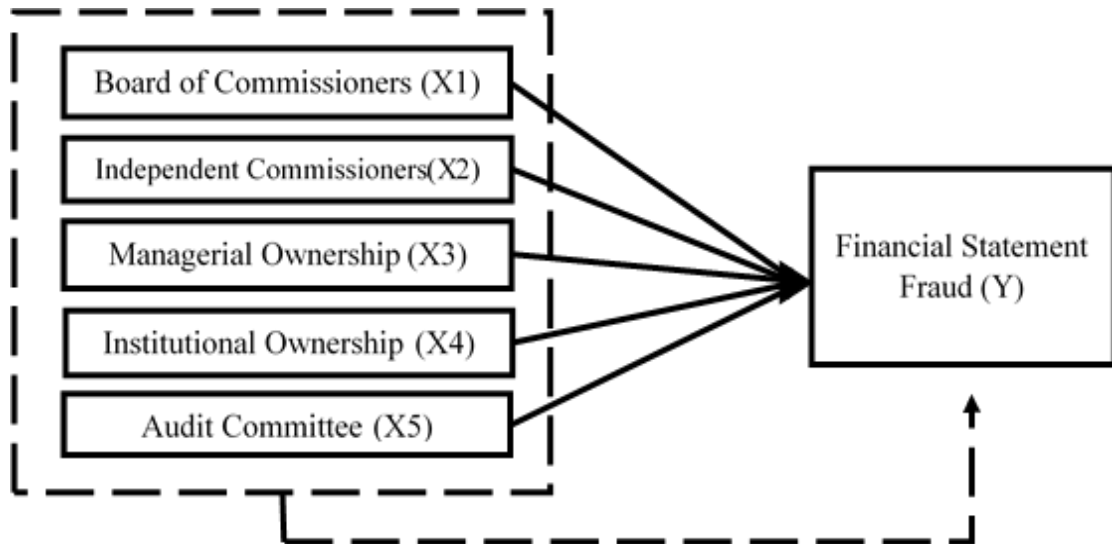


Figure 1. Conceptual Framework

METHODOLOGY

The study adopts a quantitative research methodology, employing numerical data that can be measured and analyzed. The specific type of quantitative research utilized focuses on investigating the impact of corporate governance on financial statement fraud, with the objective of establishing a cause-and-effect relationship by testing pre-existing hypotheses. The population for this study comprises property and real estate companies listed on the Indonesia Stock Exchange (IDX) within the period of 2018 to 2022. To select the sample, a purposive sampling method was employed. The analytical technique employed in this research is logistic regression analysis. (Ghozali, 2021).

RESEARCH RESULT

a. Descriptive Statistics

Table 1. Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
BC	80	2	16	4.40	3.096
IC	80	.30	.80	.4150	.12232
MO	80	.00	.42	.1005	.13741
IO	80	.09	.99	.6041	.21894
AC	80	2	5	3.00	.450
Valid N (listwise)	80				

The research focused on examining the correlation between elements of corporate governance and occurrences of financial statement fraud within the Property and Real Estate industry. The average number of commissioners in the companies studied was approximately 4.40, with a range of 2 to 16. This indicates

variation in board composition. The presence of independent commissioners in the companies ranged from 0.30 to 0.80, with an average of 0.4150. This suggests a moderate level of independent representation on the boards. Managerial ownership ranged from 0.00 to 0.42, with an average of 0.1005. This indicates a relatively low level of ownership by managers or executives. Institutional ownership varied from 0.09 to 0.99, with an average of 0.6041. This suggests a wide range of institutional ownership in the studied companies. The audit committees consisted of 2 to 5 members, with an average of 3.00. This indicates a moderate-sized audit committee.

b. Results of Frequency Distribution Analysis

Table 2. Frequency Distribution

		FRAUD			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Non-Manipulator (0)	25	31.3	31.3	31.3
	Manipulator (1)	55	68.8	68.8	100.0
	Total	80	100.0	100.0	

The analysis of frequency distribution revealed that during the research period, 25 companies or 31.3% did not engage in financial statement manipulation, while 55 companies or 68.8% were found to have manipulated their financial statements. This indicates that the proportion of companies involved in financial statement manipulation is higher compared to those that did not engage in such practices.

c. Testing the Validity of Regression Model

Table 3. Validity of Regression Model

Hosmer and Lemeshow Test			
Step	Chi-square	df	Sig.
1	3.218	8	.920

The Chi-Square test outcome reveals a value of 3.218 at a significance level of 0.920. This finding suggests that the significance level exceeds 0.05. Consequently, we can infer that the regression model employed in this research aligns well with the observed data, indicating its validity. Additionally, the null hypothesis (H0) can be accepted. As a result, the regression model can be utilized for subsequent analysis since there is no noteworthy distinction between the model's predicted classifications and the actual classifications observed in the data.

d. Overall Model Fit

Table 4. Overall Model Fit

-2LL awal (<i>Block Number</i> = 0)	99,399
-2LL akhir (<i>Block Number</i> = 1)	88,034

The comparison between the initial and final -2 Log Likelihood (-2LL) values shows a decrease in the likelihood from 99.399 (*Block Number* = 0) to 88.034 (*Block Number* = 1). The decrease of 11.365 in likelihood suggests an improvement in the regression model, indicating that the proposed model aligns more effectively with the data or, in simpler terms, fits the data better.

e. Nagelkerke's R Square

Table 5. Hypothesis of Coefficient of Determination

Model Summary			
<i>Step</i>	<i>-2 Log likelihood</i>	<i>Cox & Snell R Square</i>	<i>Nagelkerke R Square</i>
1	88.034 ^a	.132	.186

The value of Nagelkerke's R-Squared is 0.186, indicating that around 18% of the variability in the dependent variable can be accounted for by the independent variables. Specifically, the variables such as board of commissioners, independent commissioners, managerial ownership, institutional ownership, and audit committee can explain approximately 18% of the variation in financial statement fraud within this context. It is important to note that the remaining 82% of the variation is attributed to other factors that lie outside the scope of the research model.

f. Classification Tabel

Table 6. Classification Table

<i>Classification Table^a</i>					
<i>Observed</i>			<i>Predicted</i>		
			<i>FRAUD</i>		<i>Percentage Correct</i>
			<i>Non-Manipulator (0)</i>	<i>Manipulator (1)</i>	
S t e p 1	FRAUD	Non-Manipulator (0)	9	16	36.0
		Manipulator (1)	5	50	90.9
Overall Percentage					73.8

The outcome reveals that the regression model possesses a 73.1% capability in forecasting the probability of companies engaging in financial statement fraud. This implies that out of 55 companies, 50 of them (90.9%) were predicted to be involved in financial statement fraud using the regression model. In contrast, the model's ability to predict companies that do not commit financial statement fraud is 36.0%, indicating that 9 out of 25 companies (36.0%) were forecasted as not involved in financial statement fraud. Overall, this indicates an accuracy rate of 73.8% for the research model.

g. Omnibus Test

Table 7. Omnibus Tests

		<i>Omnibus Tests of Model Coefficients</i>		
		<i>Chi-square</i>	<i>df</i>	<i>Sig.</i>
<i>Step 1</i>	<i>Step</i>	11.339	5	.045
	<i>Block</i>	11.339	5	.045
	<i>Model</i>	11.339	5	.045

The analysis indicates that there is a difference of 11.339 (99.374 - 88.034) between the initial -2 Log Likelihood and the -2 Log Likelihood after incorporating the independent variables into the model. The Chi-Square value of 11.339 surpasses the Chi-Square table value for 5 degrees of freedom (number of independent variables = 5), which is 11.07, or with a significance level of $0.045 < 0.05$. This implies that the inclusion of independent variables has a significant impact on the model, indicating that the model fits well. Therefore, the independent variables of board of commissioners (X1), independent commissioners (X2), managerial ownership (X3), institutional ownership (X4), and audit committee (X5) have an impact on financial statement fraud (Y), and thus, the alternative hypothesis (H1) is accepted.

h. T Test

Table 8. Variable in the Equation

		<i>Variables in the Equation</i>					
		<i>B</i>	<i>S.E.</i>	<i>Wald</i>	<i>df</i>	<i>Sig.</i>	<i>Exp(B)</i>
Step 1 ^a	BC	.005	.097	.003	1	.958	1.005
	IC	-3.604	2.580	1.951	1	.162	.027
	MO	-1.289	2.689	.230	1	.632	.276
	IO	-2.535	1.486	2.910	1	.088	.079
	AC	1.889	.811	5.421	1	.020	6.610
	Constant	-1.588	2.436	.425	1	.515	.204

The logistic regression equation can be formulated as follows:

$$Y = -1.588 + 0.005 DK - 3.604 KOMI - 1.289 KM - 2.535 KI + 1.889 + e$$

The interpretation of the regression equation is as follows:

1. The constant value of -1588 indicates that without any influence from the five independent variables and other factors, if all independent variables are constant, the occurrence of financial statement fraud will decrease.
2. The regression coefficient of the variable X1, Board of Commissioners (BC), is 0.005 (Positive). A positive parameter indicates that financial statement fraud will be positively associated with changes in the Board of Commissioners (X1). This implies that an increase in the number of board members leads to a higher tendency for financial statement fraud.
3. The regression coefficient of the variable X2, Independent Commissioners (IC), is -3.604 (Negative). A negative parameter indicates that financial statement fraud will have an opposite direction to changes in Independent Commissioners (X2). This means that an increase in the number of independent commissioners results in a decrease in financial statement fraud tendency.
4. The regression coefficient of the variable X3, Managerial Ownership (MO), is -1.289 (Negative). A negative parameter indicates that financial statement fraud will have an opposite direction to changes in Managerial Ownership (X3). This suggests that an increase in managerial ownership leads to a decrease in financial statement fraud tendency.
5. The regression coefficient of the variable X4, Institutional Ownership (IO), is -2.535 (Negative). A negative parameter indicates that financial statement fraud will have an opposite direction to changes in Institutional Ownership (X4). This implies that an increase in institutional ownership leads to a decrease in financial statement fraud tendency.
6. The regression coefficient of the variable X5, Audit Committee (AC), is 1.889 (Positive). A positive parameter indicates that financial statement fraud will be positively associated with changes in the Audit Committee (X5). This implies that an increase in the effectiveness of the audit committee leads to a higher tendency for financial statement fraud.

DISCUSSION

a. The Influence of Board of Commissioners, Independent Commissioners, Managerial Ownership, Institutional Ownership, and Audit Committee on Financial Statement Fraud.

The Omnibus Test yielded a Chi-Square value of 11.339 (99.374 - 88.034), indicating that the addition of independent variables has a notable impact on the model. This value exceeds the Chi-Square value of 11.07 obtained from the table at df 5 (number of independent variables), at a significance level of 0.045, which is lower than the conventional threshold of 0.05. Consequently, we can infer that the variables Board of Commissioners (X1), Independent Commissioners (X2), Managerial Ownership (X3), Institutional Ownership (X4), and Audit Committee (X5) exert a significant influence on financial statement fraud (Y) within the property and real estate sector companies listed on the Indonesian Stock Exchange (BEI) during the period of 2018 to 2022. Therefore, we accept hypothesis H1.

The extent of the impact exerted by the factors of Board of Commissioners, Independent Commissioners, Managerial Ownership, Institutional Ownership, and Audit Committee on instances of financial statement fraud within property and real estate companies listed on the BEI between 2018 and 2022 can be observed through the Nagelkerke R Square value, which stands at 0.186 or 18%. This implies that approximately 18% of the variability in the occurrence of financial statement fraud can be accounted for by the aforementioned factors. The remaining 82% is attributable to other variables not encompassed by the research model.

b. The Influence of Board of Commissioners on Financial Statement Fraud.

The results of the analysis indicate that the variable of board of commissioners (X1) possesses a significance level of 0.958, exceeding the threshold of 0.05. Additionally, it exhibits a coefficient value of 0.005. Consequently, it can be concluded that the board of commissioners variable does not exert a significant influence on financial statement fraud. Therefore, the hypothesis (H2) cannot be supported and is subsequently rejected. This study fails to provide evidence of the board of commissioners' impact on financial statement fraud. Statistical data obtained from companies with the highest MKPI board of commissioners, reaching 16, still reveal instances of fraud in their financial reports. This suggests that despite the presence of numerous board of commissioners within a company, they have not been successful in effectively supervising the board of directors and enhancing management performance. Consequently, the board of commissioners has been unable to address the issue of financial statement fraud.

According to Nasution & Setiawan (2007), argued that as the size of the board of commissioners increases, the level of coordination becomes more intricate and challenging. This complexity can potentially create openings for fraudulent activities by the management, thereby granting them greater control over the board of commissioners.

c. The Influence of Independent Commissioners on Financial Statement Fraud.

The analysis findings reveal that the variable of independent commissioners (X2) exhibits a significance value of 0.162, surpassing the threshold of 0.05. Furthermore, it demonstrates a coefficient value of -3.604. Hence, it can be concluded that the independent commissioners variable does not possess a significant impact on financial statement fraud. As a result, the hypothesis (H3) cannot be supported and is therefore rejected. This study does not provide evidence of the influence exerted by independent commissioners on financial statement fraud. This indicates that the presence of a specific number of independent commissioners within a company does not yield a significant effect in combating instances of financial statement fraud.

The research carried out by Salim and Marietza (2017) reveals that there is no discernible impact of independent commissioners on financial statement fraud. This implies that independent commissioners are not directly linked to the companies they supervise, resulting in challenges in improving the effectiveness of monitoring functions within the organization. Consequently, financial statement fraud may occur. The role of independent commissioners as a control mechanism to mitigate suboptimal managerial actions is not adequately fulfilled. This suggests that independent commissioners have been unable to address the agency problems that arise within the company.

d. The Influence of Managerial Ownership on Financial Statement Fraud.

The findings of the study suggest that the presence of managerial ownership (X3) does not play a significant role in financial statement fraud. The statistical analysis reveals that the coefficient value for managerial ownership is -1.289, and its significance level is 0.632, which is higher than the threshold of 0.05. Consequently, the variable of managerial ownership does not have a noteworthy impact on financial statement fraud. As a result, the hypothesis (H4) is rejected, implying that this study fails to demonstrate the influence of managerial ownership on financial statement fraud. It indicates that, despite holding a considerable number of shares, the management is unable to prevent fraud in financial reporting due to the relatively low level of share ownership in each company.

Statistical data shows that the average ownership of shares by management is only 10.05%. Many managers do not have any shares in the company, indicating that they do not have a direct interest in addressing or reducing financial statement fraud committed by managers. Managers who have ownership of company shares are unable to effectively address or reduce financial statement fraud. This could be due to opportunistic managerial mindset. For example, in the data from company PUDP, it is evident that managers have high ownership of shares, reaching 42.44%. Managerial ownership at a certain level can lead to efficient behavior or actions, accumulating personal benefits while sacrificing other investors Syafitri et al., (2021). However, if managerial ownership of shares is very low, as in the case of company BAPA where the level of managerial ownership is below 1%, it can result in a lack of ownership perception towards the company. Consequently, managers may act in ways that prioritize their own satisfaction without considering the long-term interests of the company.

e. The Influence of Institutional Ownership on Financial Statement Fraud.

The findings from the analysis reveal that the variable representing institutional ownership (X4) has a significance level of 0.088, which exceeds the threshold of 0.05. Moreover, it exhibits a coefficient value of -2.535. As a result, it can be concluded that institutional ownership does not exert a statistically significant impact on financial statement fraud. Consequently, the hypothesis (H5) is rejected, indicating that this study fails to provide evidence for the influence of institutional ownership on financial statement fraud. The examination of a sample of companies, including INPP with institutional ownership of 97.75% and APLN with ownership percentage of 82.72%, still demonstrates signs of involvement in financial statement fraud. These findings suggest that the occurrence of financial statement fraud in companies cannot be prevented solely by the level of institutional ownership.

According to Salim & Marietza (2017), the role of institutions in fulfilling their function as authorized decision-makers in determining corporate policies is still considered ineffective. Therefore, institutions have not been able to adequately control companies to prevent financial statement fraud. Additionally, despite having significant share ownership, it does not guarantee better oversight of the company's operational activities, particularly management performance. Institutional investors are still not actively monitoring the actions of managers

involved in financial statement fraud, leaving room for such fraudulent activities to occur.

f. The Influence of the Audit Committee on Financial Statement Fraud.

Based on the test results, it can be observed that the audit committee variable (X5) possesses a significance level of 0.20, which is below the threshold of 0.05. Furthermore, it demonstrates a coefficient value of 1.889. Consequently, it can be concluded that the audit committee variable has a significant and positive influence on financial statement fraud. Thus, the hypothesis can be supported, or in other words, H6 is accepted.

This study successfully highlights the impact of the audit committee on financial statement fraud. It illustrates that the presence of independent members within the audit committee strengthens control and oversight functions. The independent audit committee members play a crucial role in preventing instances of financial statement fraud. They can act as mediators in disputes between internal management and carry out tasks involving agency issues between internal management and shareholders. As independent audit committees have no affiliations with the company, they can effectively oversee financial reporting (Zgarni et al., 2016). Regarding this matter, the existence of an autonomous audit committee decreases the chances of financial statement fraud taking place.

Based on statistical data, it has been observed that the average number of individuals serving on an audit committee is 3.00. The regulations governing audit committees are outlined in the Circular Letter of the Indonesian Capital Market and Financial Institution Supervisory Agency (Bapepam) Number SE-03/PM/2000, issued on May 5, 2000, and the Board of Directors' Decree of the Jakarta Stock Exchange. These regulations state that an audit committee should comprise a minimum of three members, with the chairman of the committee being one of them. The primary purpose of establishing an audit committee is to undertake supervisory responsibilities concerning company management. By having a well-functioning and independent audit committee, transparency and accountability within the company can be enhanced. This instills confidence among shareholders and other stakeholders in terms of the reliability of the provided financial information. Therefore, an audit committee with a minimum of three members plays a crucial role in mitigating the risk of financial statement fraud. Having an adequate number of members enables the audit committee to effectively carry out its supervisory tasks, ensure compliance with relevant accounting principles, and evaluate the integrity and dependability of financial statements.

The research conducted by Widodo & Syafruddin, (2017) conducted a study that revealed a positive correlation between the effectiveness of the audit committee and the reduction of financial statement fraud. Similarly, Wicaksono & Chariri (2015) conducted research that demonstrated a significant influence of the audit committee on the likelihood of financial statement fraud. This is attributed to the fact that the frequency of meetings held by the audit committee can aid in mitigating and deterring fraudulent financial reporting by strengthening control mechanisms and providing enhanced oversight.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Board of Commissioners, independent commissioners, managerial ownership, institutional ownership, and audit committees simultaneously influence financial statement fraud. The results of this study indicate that the audit committee has a significant positive impact on financial statement fraud. However, the Board of Commissioners, independent commissioners, managerial ownership, and institutional ownership do not have a significant impact on financial statement fraud.

This indicates that the audit committee enhances control and supervision functions by having a higher number of independent members, thus preventing opportunities for financial reporting fraud. However, an increased number of board of commissioners' members in a company can complicate matters, ultimately creating loopholes for financial reporting fraud. Independent commissioners do not have a direct relationship with the company, resulting in less effective oversight and providing opportunities for financial reporting fraud. Regardless of the amount of shares held by managerial and institutional owners, it has not been able to reduce financial statement fraud.

Recommendations

This study focuses solely on analyzing the impact of five corporate governance mechanism variables on financial statement fraud, which may not provide a comprehensive overview. Other factors that could potentially influence financial statement fraud were not examined in this research. It is advisable for future studies to incorporate additional variables that might contribute to a more comprehensive understanding of financial statement fraud. The research period is limited to the years 2018-2022, resulting in a small sample size of only 80 observations. Expanding the research period would enable a larger sample size, leading to more robust findings. Furthermore, using a longer time frame would offer a deeper insight into the research outcomes. The measurement of the dependent variable, financial statement fraud, relies solely on the Benish M-Score model. Future researchers could consider augmenting or substituting the Benish M-Score model with other models such as the Altman Z-Score, F-Score, and Jones Model to assess financial statement fraud effectively.

REFERENCE

- ACFE. (2022). *Occupational Fraud 2022: A Report to the nations*.
<https://legacy.acfe.com/report-to-the-nations/2022/>
- Beasley, M. S. (1996). Empirical Analysis the of Board the Relation of Financial Between Composition Statement Fraud. *The Accounting Review*, 71(4), 443–465.
- Beneish, M. D., Lee, C. M. C., & Nichols, D. C. (2012). Fraud Detection and Expected Returns. *SSRN Electronic Journal*, May 2008.
<https://doi.org/10.2139/ssrn.1998387>
- FGCI. (2001). *Corporate Governance: Tata Kelola Perusahaan Edisi Ketiga*.
- Ghozali, I. (2021). *Aplikasi Analisis Multivariate dengan Program IBM SPSS 26 (Edisi Kespuluh)*. Badan Penerbit Universitas Diponegoro.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4).
[https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Nasution, M., & Setiawan, D. (2007). Pengaruh Corporate Governance Terhadap Manajemen Laba Di Industri Perbankan Indonesia Marihot. *Simposium Nasional Akuntansi X*, 26–28.
<https://doi.org/10.51125/citaekonomika.v16i1.5321>
- Priswita, F., & Taqwa, S. (2019). Pengaruh Corporate Governance Terhadap Kecurangan Laporan Keuangan. *Jurnal Eksplorasi Akuntansi*, 1(4), 1705–1722.
<https://doi.org/10.24036/jea.v1i4.171>
- Salim, H. S., & Marietza, F. (2017). Pengaruh Manajemen Laba dan Corporate Governance terhadap Kecurangan Laporan Keuangan (Studi Empiris Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Periode 2008-2015). *Jurnal Universitas Bengkulu*.
- Shaqila, B. L. (2021). Pengaruh Tata Kelola Perusahaan Terhadap Tindakan Kecurangan Akuntansi Pada Perusahaan Publik Di Indonesia. *Jurnal Ilmiah Mahasiswa FEB*, 9.
- Syafitri, M., Ermaya, H. N. ., & Putra, A. . (2021). Dampak Corporate Governance, Financial Stability, Dan Financial Target Dalam Kecurangan Laporan Keuangan. *JURNAL AKUNIDA*, 7, 44–59.
<https://www.ptonline.com/articles/how-to-get-better-mfi-results>

- Taufiq, M., Lubis, A. F., & Mulyani, S. (2014). Pengaruh Penerapan Good Corporate Governance Manajemen Laba Sebagai Variabel Intervening (Studi Pada Perusahaan Perbankan Yang terdaftar di Bursa efek Indonesia). *Jurnal Telaah Dan Riset Akuntansi*, 7(1), 66-75.
- Triyani, O., Kamalia, & Azwir. (2019). Pengaruh Good Corporate Governanceterhadap Kecurangan Laporan Keuangan dengan Manajemen Laba sebagaiVariabel Moderating. *Jurnal Ekonomi*, 27(1), 27-36.
- Wicaksono, G. S., & Chariri, A. (2015). Mekanisme Corporate Governance Dan Kemungkinan Kecurangan Dalam Pelaporan Keuangan. *Diponegoro Journal of Accounting*, 4(4), 552-563.
- Widodo, A., & Syafruddin, M. (2017). Pengaruh Pengungkapan Struktur Corporate Governance Terhadap. *Diponegoro Journal of Accounting*, 6(4), 1-10.
- Zgarni, I., Hlioui, K., & Zehri, F. (2016). Effective audit committee, audit quality and earnings management Evidence from Tunisia. *Journal of Accounting in Emerging Economies*, 6(2), 138-155. <https://doi.org/10.1108/JAEE-09-2013-0048>