Jurnal Akuntansi dan Keuangan FEB Universitas Budi Luhur
Vol. 13 No. 2 Oktober 2024 p-ISSN: 2252-7141
e-ISSN: 2622-5875

HOW DOES AN AUDITOR'S REPUTATION AFFECT GOVERNANCE AND FINANCIAL FRAUD IN INDONESIAN STATE-OWNED ENTERPRISES?

Widya Apriana Rahayu[1]
Novia Widyastuti[2]
Annisa Salsabila Safanah[3]
Riyan Harbi Valdiansyah[4]
Program Studi Magister Akuntansi, Fakultas Ekonomi dan Bisnis, Universitas Budi Luhur
E-mail: 2332600101@student.budiluhur.ac.id[1]; 2332600184@student.budiluhur.ac.id[2]; 2332600127@student.budiluhur.ac.id [3]; ryanharbi89@gmail.com[4]

ABSTRACT

This study explores how governance mechanisms affect financial statement fraud and the moderating influence of auditor reputation using moderated regression analysis on a sample of 72 Indonesian Stock Exchange-listed companies from 2019 to 2021. The commissioner boards significantly reduce financial statement fraud, whereas the audit committee's effect is insignificant. When moderated by audit quality, the commissioner boards significantly impact financial statement fraud, whereas audits have an insignificant effect on audit reputation moderation. This study provides insights for SOE top management on the effectiveness of governance mechanisms in preventing financial statement manipulation and enhances understanding of how these mechanisms, aligned with government legitimacy, can mitigate agency conflicts between SOE management and stakeholders. Future studies could investigate additional factors beyond corporate governance mechanisms or employ different criteria for measuring independent variables to obtain more comprehensive results.
Keywords: *Governance Mechanism, Commissioner boards, Audit Committee, Audit Reputation, Financial Statement Fraud*

ABSTRAKSI

Penelitian ini mengeksplorasi bagaimana mekanisme tata kelola memengaruhi kecurangan laporan keuangan dan pengaruh moderasi dari reputasi auditor dengan menggunakan analisis regresi moderasi pada sampel 72 perusahaan yang terdaftar di Bursa Efek Indonesia dari tahun 2019 hingga 2021. Dewan komisaris secara signifikan mengurangi kecurangan laporan keuangan, sedangkan pengaruh komite audit tidak signifikan. Ketika dimoderasi oleh kualitas audit, dewan komisaris secara signifikan berdampak pada kecurangan laporan keuangan, sedangkan audit berpengaruh tidak signifikan terhadap moderasi reputasi audit. Penelitian ini memberikan wawasan bagi manajemen puncak BUMN tentang efektivitas mekanisme tata kelola dalam mencegah manipulasi laporan keuangan dan meningkatkan pemahaman tentang bagaimana mekanisme ini, yang selaras dengan legitimasi pemerintah, dapat memitigasi konflik keagenan antara manajemen BUMN dan pemangku kepentingan. Penelitian selanjutnya dapat menginvestigasi faktor-faktor lain di luar mekanisme tata kelola perusahaan atau menggunakan kriteria yang berbeda untuk mengukur variabel independen untuk mendapatkan hasil yang lebih komprehensif.
Kata-kata Kunci: Mekanisme Tata Kelola, Dewan Komisaris, Komite Audit, Reputasi Audit, Kecurangan Laporan Keuangan

INTRODUCTION

The Association of Certified Fraud Examiners (ACFE), the world's major anti-fraud association, defines fraud as an illegal act carried out intentionally for personal or group gain that can harm others. According to a recent survey, illustrated in Figure 1, asset misappropriation is the most prevalent form of fraud, with an incidence rate of 86%, although the average loss is the lowest. Corruption is second, with an incidence rate of 50% and a medium average loss of approximately $150,000. By contrast, financial statement fraud is the least public type, with an occurrence frequency of only 9%, but it has the highest average loss (Association of Certified Fraud Examiners, 2022).

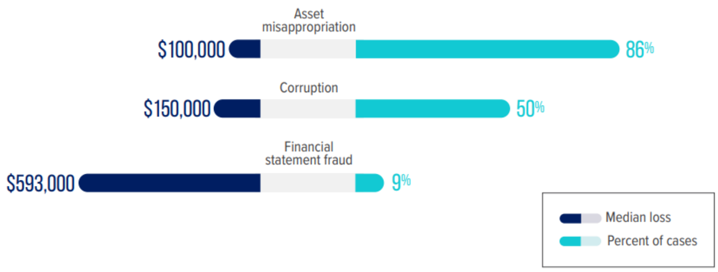

Figure 1. Fraud survey Graphs

Source: Report to the Nation (2022) accessed on June 06th, 2024 (https://www.acfe.com/-/media/files/acfe/pdfs/rttn/2022/2022-report-to-the-nations.pdf)

The growing incidence of financial statement fraud suggests that existing governance mechanisms have not been efficiently implemented by the company, resulting in inadequate supervision of manager behaviour Haryani & Syafruddin (2022) Public companies in Indonesia are legally required to adopt Good Corporate Governance (GCG) since the Ministry of SOEs issued the Declaration of the Minister of State-Owned Enterprises Number (PER-01/MBU/2011) on the application of good corporate governance in State-Owned Enterprises. In addition, since 2015, the Financial Services Authority (OJK) has issued Financial Services Authority Instruction (POJK) Number 21/POJK.04/2015 on the Application of Public Company Governance Plans to advance transparency in GCG practices.

According to data from Indonesia Corruption Watch (ICW), in 2022, 28 cases of corruption were investigated by law enforcement agencies, resulting in a total of 119 cases and 340 suspects (Figure 2). The data indicate that nine cases were recorded in 2016, 33 in 2017, 21 in 2018, 20 in 2019, 27 in 2020, and nine in 2021. The corruption cases within the state-owned enterprises (SOEs) sector have resulted in significant financial losses for the Indonesian government, estimated at Rp 47.9 trillion. Furthermore, a sum of Rp 106.9 billion was identified as having been paid in bribes, while Rp 57.86 billion was found to have been involved in money laundering. Based on ICW monitoring, the estimated financial loss to the state resulting from the 119 corruption cases in state-owned enterprises (SOEs) between 2016 and 2021 is approximately Rp 47.92 trillion.

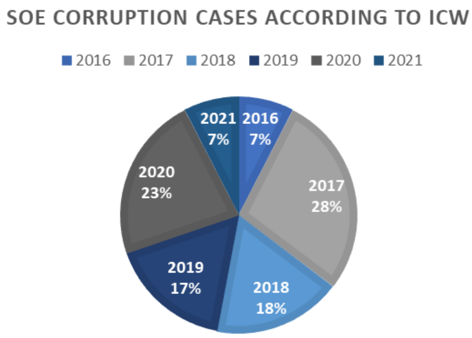

Figure 2. Diagram of SOE corruption cases according to ICW in 2016 – 2021

Source: *Indonesia Corruption Watch* (2022) *accessed on 6 June 2024* (https://antikorupsi.org/id%202022)

The researcher posits that a significant issue contributing to fraud in Indonesian state-owned enterprises (SOEs) is the inadequacy of governance mechanisms, specifically the roles of commissioner boards and audit committees. The commissioner boards are essential for implementing good corporate governance. According to POJK Number 33/POJK.04/2014, every company must have a commissioner board. However, research shows mixed results regarding their impact on financial statement fraud. Some studies indicate that commissioner boards help reduce fraud by fostering ethical and professional auditor cultures, implementing strong internal controls, and using advanced fraud management systems, relying on consistent monitoring and context-specific policies (Adinugroho *et al.*, 2022). Conversely, other studies suggest that commissioner boards may not significantly affect financial reporting fraud, indicating that independent commissioners may not always prevent fraud (Setiawan & Trisnawati, 2022).

Furtherore, the researchers aim to investigate the operational mechanisms of other governance structures, particularly the role of the audit committee and its connection to financial reporting irregularities. The audit committee's role in fraud involves overseeing financial reporting, internal control, and internal audit functions, all critical for detecting and preventing fraud. The characteristics and effectiveness of audit committees significantly impact fraud prevention within a firm (Kurniasih & Rahma Sari, 2024). While audit committee features may influence fraud prevention, the internal audit's role may not always directly impact it, suggesting the committee's effectiveness varies based on factors like composition, expertise, and internal control system strength

(Kurniasih & Rahma Sari, 2024). Additionally, the internal audit's contribution to the audit committee process can inversely affect the expectation of reducing fraud prevention activities (Bonrath & Eulerich, 2024). Previous study indicate that the audit committee does not influence the relationship between specific elements of financial reporting fraud, highlighting a limitation in its impact on fraud prevention (Nikmah & Arjoen, 2023). Conversely, a complex scenario where internal auditors' meetings with management correlate positively with preventive actions, while meetings with the audit committee show an inverse effect (Bonrath & Eulerich, 2024).

This study aims to provide a novel perspective on the relationship between governance mechanisms, specifically commissioner boards and audit committees, and financial fraud, introducing auditor reputation as a moderating factor. Fau *et al.* (2021) define reputation as the public's perception of an auditor's quality and integrity based on their professional conduct. Auditor reputation is critical for financial statement credibility, as it influences the ability to detect financial irregularities, thereby potentially enhancing the negative impact of governance mechanisms on financial manipulation. However, opinions vary on how auditor reputation affects the link between governance mechanisms and financial fraud. While it can improve fraud detection and prevention, especially when other governance mechanisms are weak Tangsomchai & Suwanaphan (2020), this impact is not absolute and may depend on specific circumstances and market expectations. Given these discrepancies, further research is warranted, utilizing variables from previous studies and a distinct research model.

Research on financial statement fraud in state-owned enterprises (SOEs) is crucial due to their strategic role in the national economy and management of substantial public funds. The accuracy and transparency of SOE financial statements are essential for maintaining public trust, economic stability, and effective resource allocation. Fraud not only causes financial losses but also damages the integrity of public and government-trusted institutions (Sudrajat *et al.*, 2023). Despite stricter oversight due to public funding, previous research indicates that financial statement fraud risks persist, particularly when internal audit functions are weak and audit committee oversight is lacking. According to Razak *et al.* (2023), SOE financial statement fraud often arises from pressures to demonstrate strong financial performance to meet government strategic objectives, leading to report manipulation. This research underscores the importance of preventing and detecting financial statement fraud in SOEs, as these entities are vital to national economic stability and growth. Without robust governance and auditing, the risk of fraud increases, undermining public trust and potentially causing significant economic losses.

Given the discrepancies among prior studies, the author plans to conduct further research using variables from past research but with a different inquiry model. This study aims to offer both practical and theoretical benefits. Practically, it seeks to inform top-level management in state-owned enterprises (SOEs) about the effectiveness of governance mechanisms from the perspectives of commissioner boards, audit committees, and auditors, aiming to reduce financial statement manipulation harmful to the country. Theoretically, it aims to contribute to the development of theories on how governance mechanisms, as part of governmental legitimacy, can mitigate agency conflicts between SOE management and stakeholders.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

The agency theory is frequently employed to elucidate the phenomenon of accounting fraud (Jensen & Meckling, 1976). This theory posits that an organisation is a collaborative relationship between shareholders (principals) and managers (agents), based on a contractual agreement. The agency theory also indicates that governance mechanisms can serve as a means for managers (agents) to provide assurance to shareholders (principals), thereby ensuring that they receive returns on their investments. Conflicts of interest and information imbalances between principals and agents in a company are expected to be overcome through good governance mechanisms, so as to prevent and inhibit the occurrence of fraud in financial reporting.

The agency theory emphasises the importance of governance mechanisms in falling the risk of financial statement fraud by aligning the interests of management with those of shareholders. However, the effectiveness of these mechanisms may be affected by a number of factors, including the composition of the board, the existence of an audit committee, and the governance practices that are implemented. The literature indicates that, while certain attributes of governance may enhance transparency in financial reporting, others may have less discernible or even contradictory effects (Juhari & Joseph, (2020); Salehi et al., (2023)).

Fraud in the Financial Statements

The components of financial reports applied in Indonesia are increasingly comprehensive. However, there are many loopholes in financial reports that can be a space for management and certain individuals to commit fraud on financial reports. Financial statement fraud refers to the intentional act of distorting financial statements by either misrepresenting or withholding crucial information and disclosures. The primary goal of this deceptive behaviour is to conceal a business's true financial status and mislead the users of financial statements (Association of Certified Fraud Examiners., 2022)

Fraudulent financial reporting is a common practice employed by companies to achieve specific objectives, which can enhance their reputation among investors (Association of Certified Fraud Examiners., 2022). However, in many cases of financial fraud, the perpetrators are primarily concerned with maintaining their position as company leaders, which could be jeopardised if the financial statements were to be published in a realistic manner. It is challenging to eradicate financial fraud due to the prevalence of loan-related irregularities across successive financial periods. Over time, the number of individuals involved in fraud has increased, and perpetrators will continue to attempt to conceal their actions (Pengestu, 2021)

Hypothesis Development

The Influence of The Board of Commissioners on Financial Reporting Fraud

The concept of governance mechanisms refers to the relationship among the various members of a corporation and the goal of determining the direction of the corporation's performance. This concept is in accordance with the conceptual framework of Decree No. 23/M-PM/PBUMN/2000 on the Development of GCG practices in limited liability companies. Good corporate governance (GCG) represents a system of governance and control for corporations that provides value to all stakeholders, emphasizing two key principles: the obligation of companies to provide accurate and timely disclosure of information, and the shareholders' right to receive accurate information in a timely and transparent manner. The Commissioner boards is one of the corporate entities responsible for overseeing the company's policies and providing guidance to the company's management on implementing strategies that align with the business's vision and mission. Additionally, the commissioners are accountable for making recommendations for improvements based on their valuation of the business's performance. In accordance with the business's articles of connotation, the commissioner boards are selected and dismissed by the general meeting of shareholders. In accordance with Article 20 of POJK No. 33/POJK.04/2014 dated 8 December 2018, the commissioner boards must comprise a minimum of two members, one of whom must be an independent commissioner. (Angelina & Chariri, 2022) stated that along with the increase in independent members that are balanced with the proportion of the internal board of commissioners, the supervisory function will increase. This tighter supervision will encourage managers to be more careful in acting and can reduce the possibility of fraud in financial statements. The results of this study align with those of previous studies McGee et al., (2018); Nila Sari et al., (2020); Soomro et al., (2021); Adinugroho et al., 2022)

H1: The commissioner boards have a negative impact on financial statement fraud

The Influence of The Existence of An Audit Committee on The Incidence Of Financial Statement Fraud.

The objective of establishing the Audit Committee within the company is to aid the Commissioner boards in discharging their supervisory responsibilities in accordance with the application of Good Corporate Governance, particularly as it pertains to financial evidence, internal control, risk organization, and obedience with applicable legislation. In practical application, the Audit Committee operates autonomously, yet it may also collaborate with the Internal Audit Unit to carry out evaluations and discussions connected to the company's performance, with the aim of developing more effective, coordinated, and transparent mechanisms for monitoring and reporting financial information. The Financial Services Authority (FSA) mandates that companies possess an autonomous commissioner board and an audit committee comprising a minimum of three individuals, managed by an independent commissioner and two external, independent members. Previous research conducted by Tiapandewi *et al*., (2020); Bonrath & Eulerich, (2024); Julianti & Fuad, (2023) Komala & Asaari, (2022); Kurniasih & Rahma Sari, (2024); Purwiyanti & Herry Laksito, (2022) has demonstrated a correlation between the presence of an audit committee and a reduction in financial reporting irregularities.

H2: The existence of an audit committee has a negative impact on the incidence of financial statement fraud.

Auditor Reputation as a Moderator of the Relationship between the Commissioner Board and Financial Statement Fraud

The standing of an auditor shows a critical part in shaping the believability of financial statements, as well as their independence and quality, which ultimately impacts the discovery of financial fraud. A positive reputation for auditors serves as a facilitator for the earlier detection of fraudulent activities. Consequently, the presence of auditors with a less than favourable reputation increases the probability of managerial scam in financial statements. A higher standing for Sauditors is correlated with a decreased incidence of fraud in companies and a reduced likelihood of identifying such fraud in financial statements. A positive reputation for auditors can enhance the effectiveness of detection and prevention of fraud when other governance mechanisms are insufficient Tangsomchai & Suwanaphan, (2020); Hutton *et al.*, (2021). This suggests that the reputation of an auditor influences the association between governance mechanisms and fraud in financial reports.

H3: The auditor reputation reinforces the negative impact of the commissioner boards on financial statement fraud.

H4: The auditor reputation reinforces the negative impact of the audit committee on financial statement fraud.

METHODS

This study uses quantitative methods by collecting information from 24 state-owned enterprises registered on the Indonesia Stock Exchange (IDX) period 2020-2022, resulting in a model size of 72 enterprises. Financial statements for each of these enterprises were published on December 31st of each year. Researchers used the Moderated regression analysis (MRA) method by making Commissioner Boards (COMM) and Audit Committee (AUDIT) as independent variables, Auditor Reputation (REPUTATION) as a moderating variable and Financial Statement Fraud (BENEISH) as the dependent variable. Researchers use EViews 13.0 as a research tool for regression data analysis tools.

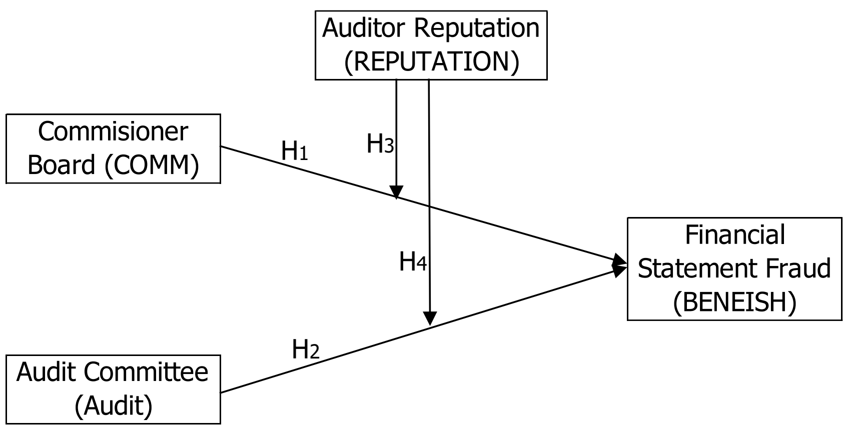

Figure 3. Theoretical Framework

Source: Research Data (2024)

Variable Operations and Variable Measurement

Independent Variables (COMM & AUDIT)

The focus of this study is on the governance mechanism, with the commissioner boards serving as a proxy for this variable. The study measures the number of commissioners on the board by considering the total quantity of members, including both internal and external representatives (Haryani & Syafruddin, 2022). Furthermore, an audit committee is established to support the supervisory functions of the commissioner boards, particularly in relation to financial evidence, internal control, risk supervision, and acquiescence with relevant legislation (Nila Sari *et al.*, 2020) In this study, the number of audit committees within a company is used as a measure of the audit committee variable (Widowati & Oktoriza, 2021). It is anticipated that a growth in the number of commissioners board will decrease the probability of financial statement fraud.

Dependent Variable (BENEISH)

The dependent variable in this study is financial statement fraud. The measurement of fraud in financial statements in this study employs the Beneish M-Score methodology. This method is a method or model where financial report data can be used to detect financial report fraud in a company (Widowati & Oktoriza, 2021). To calculate the Beneish M-Score, Beneish employs eight financial fractions that are related to changes in assets and sales growth. A score above -2.22 indicates a proclivity for manipulation. Conversely, if the obtained M-score is less than -2.22, it can be inferred that the SOE is unlikely to engage in any manipulative actions. The formulation for calculating the Beneish M-Score form is as follows:

$$\boldsymbol{M = -4.840 + 0,920DI + 0,528GI + 0,404AI + 0,892SI + 0,115DI - 0,172SGAI + 0,327LI + 4,679ATA}$$

Remarks:

DI: Days Sales in Receivables Indicator *DI: Depreciation Indicator*
GI: Gross Margin Indicator *SGAI: Sales, General, and Administrative Exp. Indicator*
AI: Asset Quality Indicator *LI: Leverage Indicator*
SI: Sales Growth Indicator *ATA: Accruals to Total Assets*

Table 1. M- Score Observation Year (2020-2022)

COMPANY	CODE	M- Score Observation Year		
		2020	2021	2022
PT Adhi Karya (Persero) Tbk	ADHI	-2,280	-2,359	-2,724
PT Aneka Tambang, Tbk	ANTM	-2,046*	-2,986	-2,690
PT Bank Negara Indonesia, Tbk	BBNI	-2,684	-2,350	-2,508
PT Bank Rakyat Indonesia, Tbk	BBRI	-2,663	-1,614*	-2,095*
PT Bank Tabungan Negara, Tbk	BBTN	-2,272	-1,987*	-2,324
PT Bank Mandiri, Tbk	BMRI	-2,524	-2,063*	-2,151*
PT Elnusa Tbk	ELSA	-2,873	-2,903	-2,503
PT Garuda Indonesia (Persero) Tbk	GIAA	-1,534*	-8,446	-0,052*
PT Indofarma (Persero) Tbk	INAF	-1,540*	-6,408	-4,336
PT Jasa Marga (Persero) Tbk	JSMR	-3,048	-2,946	-2,915
PT Kimia Farma (Persero) Tbk	KAEF	-2,575	-1,955*	-2,586
PT Krakatau Steel (Persero), Tbk	KRAS	-2,273	-2,311	-2,834
PT Perusahaan Gas Negara (Persero) Tbk	PGAS	-2,781	-2,048*	-2,592
PT PP Properti Tbk	PPRO	-1,852*	-3,251	0,761*
PT Tambang Batubara Bukit Asam (Persero) Tbk	PTBA	-2,839	-2,149*	-2,168*
PT PP (Persero) Tbk	PTPP	1,373*	6,256*	-2,448
PT Semen Baturaja (Persero)	SMBR	-2,434	-4,280	-2,684
PT Semen Indonesia (Persero)	SMGR	-2,705	-2,581	-2,622
PT Timah, Tbk	TINS	-4,617	-3,177	-3,524
PT Telkom Indonesia (Persero) Tbk	TLKM	-2,751	-3,034	-2,927
PT Wijaya Karya (Persero) Tbk	WIKA	-3,053	-1,828*	-2,073*
PT Waskita Beton Precast, Tbk	WSBP	-5,443	-8,436	-1,825*
PT Wakita Karya (Persero) Tbk	WSKT	-3,659	-3,950	-2,350
PT Wijaya Karya Beton Tbk	WTON	-2,321	-3,433	-2,752

*Notes: *: Manipulator Source: Research Data (2024)*

Based on the results from table 1 with a sample of 24 state-owned enterprises (SOEs) observed over 3 years, there is evidence of financial statement manipulation in some SOEs during the period from 2020 to 2022. Data from the Beneish model indicate that in 2020, 5 companies engaged in manipulation; in 2021, 8 companies engaged in manipulation; and in 2022, 7 companies engaged in manipulation. Although this manipulation did not occur consistently each year, these figures reveal a noticeable and concerning pattern in the management of financial statements in these companies. The following table presents the Beneish M-Score values for state-owned enterprises listed on the Indonesia Stock Exchange over the 2020-2022 period.

Moderator Variable (Reputation)

A moderating variable is one that strengthens or weakens the direct association between an independent and a dependent variable (Sugiyono, 2018). The moderating variable employed in the present study is audit reputation. The auditor reputation variable is measured expending a dummy variable with a rate of 0 for samples of corporations that are not audited by Big 4 and a rate of 1 for corporations that are assessed by Big 4 (Ardiansyah *et al.*, 2024) The four Public Accounting Firm are considered to have good reputations, as evidenced by the large number of clients they serve, which suggests that the issuers of these securities place a high degree of trust in the audit services provided by these four Public Accounting Firm. The four largest public accounting firms are: Sidharta & Sidharta is affiliated with KPMG, Prasetyo, Sarwoko and Sandjaja is affiliated with Ernst and Young, Osman Ramli Satrio is affiliated with Deloite Touche & Tohmatsu, and Haryanto Sahari & Rekan is affiliated with PricewaterhouseCoopers.

RESULTS AND DISCUSSIONS

The outcomes of the descriptive statistical analysis conducted using E-Views 13.0 reveal general information about the sample, including the highest and lowest values, standard deviation, and mean. Descriptive statistics and moderated regression analysis (MRA), which includes a test of interaction, were employed as data analysis techniques. The following section presents the findings of the statistical descriptive analysis. Table 2 illustrates that the mean values of the variables are higher than their standard deviations, representing that the variables used in this study are representative of the research domain.

Table 2. Descriptive Statistics

Variables	N	Min.	Max.	Mean	Std. Dev
Financial Statements Fraud (Beneish)	72	-8.45	6.26	-2.62	1.79
Commissioner Boards (Comm)	72	3.00	10.00	6.28	2.01
Audit Commiitee (Audit)	72	3.00	8.00	4.33	1.39
Auditor Reputation (Reputation)	72	0.00	1.00	0.58	0.50

Source: Research data processing with EViews 13.0 (2024)

Moreover, although the mean value of the BENEISH indicator is -2.62, which is below the threshold of -2.22, indicating that, on average, SOE companies do not engage in financial reporting irregularities, the standard deviation value of BENEISH is greater than the mean value of this research sample. This suggests that the sample is too varied, which could potentially obscure the interpretation of the positive value of the mean. Prior to conducting regression tests as the primary test in this study, researchers selected the optimal model for analysis. As detailed in Table 3, the selected model is the common effect model, as evidenced by the results of two out of three tests, which indicate that this model is the most appropriate for examination within the context of this study.

Table 3. Model Selection test

Test	Prob. Value	Prob. Standard	Best Model
Chow Test	0.0872	> 0.05	Common Effect Model
Hausmann Test	0.4375	> 0.05	Random Effect Model
LM Test	0.1844	> 0.05	Common Effect Model

Source: Research data processing with EViews 13.0 (2024)

Furthermore, the researcher attempted to test for multicollinearity on the independent variables (COMM & AUDIT) and moderation (REPUTATION) in table 3. It was found that no independent variables had a tolerance rate of less than 0. 10 is the established upper limit, and no independent variables have a VIF value exceeding this limit, namely greater than or equal to 10.0. It can be concluded that there are no issues with multicollinearity. Consequently, the next stage of testing can be initiated.

Table 4. Collinearity Assessment

Variables	***Collinearity Statistics***	
	Tolerance	**VIF**
Commissioner boards (COMM)	0.612	1.633
Audit Commiitee (AUDIT)	0.555	1.802
Auditor Reputation (REPUTATION)	0.770	1.299

Source: Research data processing with EViews 13.0 (2024)

Moderated Regression Analysis (MRA)

Table 5 provides an explanation of the hypothesis testing conducted using moderated regression analysis (MRA). Table 5 indicates that the adjusted R-squared value is 0.070, representing 7% of the total variation. This shows that approximately 7% of the variation in financial statement fraud can be clarified by a model that incorporates the roles of the commissioner boards, the audit committee, and the reputation of the auditor. Consequently, 93% of the variance in fraud is clarified by factors not addressed in this study.

In the first hypothesis, the t-test conducted on the commissioner boards variable yielded a statistically significant result (p-value = 0.0486<0.0500). The beta coefficient (ß) for the commissioner boards' variable is negative (-0.4780), indicating that the commissioner boards exert a negative and significant influence on financial fraud. The agency theory posits that a conflict of interest exists between the principal (shareholders) and the agent (managers), which may result in fraud if not adequately supervised (Rehman, 2022). As a constituent part of the governance structure, the commissioner boards' role is to oversee management to safeguard the interests of shareholders and prevent fraud. To reduce fraud, it is recommended that they promote an ethical and professional culture among auditors, implement effective internal control systems, and utilize modern fraud management systems. The success of this strategy is contingent upon the implementation of regular and consistent monitoring, as well as the adaptation of policies and practices to align with the specific needs of the relevant sector or industry. These findings are consistent with those of previous studies (Adinugroho *et al.*, 2022). The findings of this study indicate that the presence of a commissioner boards exerts a negative influence on the incidence of financial statement fraud, a conclusion that differs from those of previous studies (Setiawan & Trisnawati, 2022)

Table 5. Moderated Regression Analysis (MRA)

Model	Prediction	Coef.	t	Sig.
(Constant)		-0.6163	-0.3824	0.7034
COMM	-	-0.4780	-2.0090	0.0486**
AUDIT	-	0.1820	0.7270	0.4698
REPUTATION	-	-2.9792	-1.5463	0.1268
COMM x REPUTATION	-	0.5882	2.0834	0.0411**
AUDIT x REPUTATION	-	-0.1482	-0.4216	0.6747
Dependent Variable		BENEISH		
Adj. R-Squared		0.070		

Notes: *COMM: Commissioner boards; AUDIT: Audit Committee; REPUTATION: Auditor Reputation; x: Moderating Effect; *: significance prob.< 0.1; **: significance prob.< 0.05; ***: significance prob. < 0.01*

Source: Research data processing with EViews 13.0 (2024)

The t-test for the second hypothesis, which concerns the committee audit variable, yielded a significance value (0.4698>0.05) and the beta coefficient (ß) for the committee audit variable is positive (0.1820), indicating that the committee audit does not exert any influence on financial statement fraud. This indicates that the existence of the audit committee in a company has not yet been sufficient to effectively restrict the activities of management that may potentially lead to financial statement fraud. (Nikmah & Arjoen, 2023) discovered that the committee audit does not influence the relationship between specific elements of financial fraud, indicating that the committee's impact on fraud prevention is limited. In a more complex scenario, (Bonrath & Eulerich, 2024) observed a positive correlation between additional meetings between internal auditors and management and preventive fraud activities. Conversely, additional meetings between internal auditors and the audit committee have been observed to exert a counterproductive effect. Furthermore, presents a contrasting viewpoint, indicating that corporate governance has no causal impact on company performance in the context of fraud. This indicates that the governance mechanism may be ineffective in preventing fraud in companies with an existing culture of fraud. The findings of this study are consistent with those of previous research, (Bonrath & Eulerich, 2024). However, this is contrary to the findings of other studies which indicate that the presence of an audit committee has a negative effect on the occurrence of financial statement fraud Tiapandewi *et al.*, (2020); Bonrath & Eulerich, (2024); Julianti & Fuad, (2023); Komala & Asaari, (2022); Kurniasih & Rahma Sari, (2024); Purwiyanti & Herry Laksito, (2022).

It is noteworthy that the results of the third hypothesis testing indicate that the t-test significance value for commissioner board's variable, with reputation of the auditor as a moderating variable, is 0.0411. A comparison of the level of significance, α = 5% or 0.05, with the observed value of 0.0411 reveals that the latter is less than the former. The beta coefficient (ß) for the variable of the commissioner boards moderated by auditor reputation is 0.5882, indicating a positive correlation. This indicates that the reputation of the auditor serves to mitigate the negative influence of the commissioner boards on financial statement fraud. As evidenced in Table 5, there is no statistical evidence that auditor reputation exerts an influence on financial statement fraud. Consequently, the negative effects generated by the commissioner boards are not sustained and experience a decline due to the presence of a poor reputation among auditors. The reputation of the auditor does not exert a consistent influence on the occurrence of fraud, which can be influenced by several factors. Although auditor reputation has a positive influence on the financial performance of a company, its effect on the occurrence of fraud is not significant. These findings emphasize that while auditors with a good reputation can improve a company's financial performance, they do not directly reduce fraudulent behaviour. This study provides important insights into the limitations of the auditor reputation effect in the context of fraud prevention. (Valentino & Latrini, 2024). While the reputation of the auditor may enhance the effectiveness of detection and prevention of fraud when other governance mechanisms are less optimal (Hutton *et al.*, 2021), the impact may not be consistent across different contexts. (Ibrahim & Adli, 2024) The results show that the impact of auditor reputation on fraud depends on specific contexts and market expectations. Although auditor reputation can influence the effectiveness of governance mechanisms, the moderating effect of auditor reputation is not absolute and may vary depending on certain conditions.

The fourth hypothesis test indicates that the t-test significance value for the moderated audit committee variable is 0.6747. A comparison of the level of significance,

α = 5% or 0.05, with the value 0.6747 reveals that the latter is greater than the former. The beta coefficient (ß) for the moderated audit committee variable is -0.1482, indicating that the moderating effect of auditor reputation does not exert any influence on financial statement fraud. In this context, investors may hypothesise that larger accounting firms are capable of detecting fraud in financial statements. Nevertheless, in practice, the utilisation of Big 4 public accountants is frequently motivated by the objective of attracting investor interest, despite a paucity of evidence to suggest that they are capable of effectively limiting the occurrence of financial fraud. Despite the audit committee's responsibility for overseeing the financial reporting process and its reliance on independent auditors to assess financial statements, its effectiveness may be constrained by a lack of real-time information and its dependence on historical reports. It is unclear whether auditor reputation plays a moderating role in the audit committee's function in fraud prevention (Susandya & Suryandari, 2021) Auditor reputation does not directly address the shortcomings, suggesting that further investigation is required. This indicates that the approach taken by the audit committee in monitoring and oversight could be more influential than the reputation of the auditor.

CONCLUSSIONS

The research findings indicate that an independent commissioner board has a detrimental impact on financial statement fraud. This is attributed to the commissioner boards' role as a supervisory entity that oversees the presentation of management. The independence of the commissioner boards enables them to act with greater impartiality and fairness, as they are not subject to the same internal pressure as other stakeholders in the company. The appointment of an appropriate number of external, independent members to the commissioner boards has the effect of facilitating more effective and rigorous supervision. Such rigorous supervision encourages managers to exercise greater prudence in their actions and aids in minimizing financial statement fraud. On the other hand, Audit Committees stimulus of the audit committee on financial fraud was found to be positive but insignificant. The committee is projected to be able to help reduce opportunistic performance in management by fulfilling its duties and responsibilities. However, in the absence of the Audit Committees necessary capabilities and independence of the audit committee, the risk of financial statement fraud remains.

The influence of an auditor's reputation on the occurrence of fraud is not consistent and is affected by various factors. Therefore, it cannot be concluded that an auditor's reputation has a negative consequence on the commissioner boards. While auditors’ reputation may have a positive consequence on financial performance, it does not necessarily lead to a reduction in fraudulent financial reporting practices. Additionally, no moderating effect of auditor reputation on financial fraud was found. This could be because the audit committee's supervisory approach has a greater impact than the auditor's reputation on preventing fraud and ensuring effective communication. This study provides practical insights into the top management of state-owned enterprises (SOEs) regarding the effectiveness of governance mechanisms from the perspective of the commissioner boards, audit committees, and auditors' reputations, with the aim of reducing the manipulation of financial reports that are detrimental to the country. From a theoretical perspective, this study has implications for existing theories on the role of governance mechanisms in reducing agency struggles between the SOE management and relevant stakeholders.

The Researchers recognizes that this study is not devoid of limitations. Initially, the perspective on governance mechanisms was founded on the measurement of the quantity of boards of commissioners and audit committees in the financial statements, which may not completely reflect the actual circumstances. Second, the sample size of the study is limited to 24 state-owned enterprises, which may reduce the generalizability and cogency of the results. It is recommended that future researchers utilize a larger sample of companies, surpassing those registered on the Indonesia Stock Exchange or based on specific indices, to broaden the scope of the study. It is expected that future investigate will incorporate factors beyond those related to corporate governance, thus enriching existing findings or utilizing alternative criteria for measuring independent variables, thereby providing insights that can inform decision making.

REFERENCES

Adinugroho, I., Rauf, R., & Sucipto, N. (2022). The Role of the Financial Services Authority in Supervision of Fraud Prevention in Life Insurance Companies in Indonesia. *Jurnal Economic Resources*, 5 (1), 121–125. https://doi.org/10.57178/jer.v5i1.258.

Angelina, N. T., & Chariri, A. (2022). Pengaruh Proporsi Dewan Komisaris Independen, Aktivitas Komite Audit, dan Kepemilikan Manajerial Terhadap Kecurangan Laporan Keuangan. *Diponegoro Journal of Accounting*, 11 (4), 13. http://ejournal-s1.undip.ac.id/index.php/accounting.

Ardiansyah, A., Muhsin, M., & Helmi, S. M. (2024). Pengaruh Reputasi KAP, Biaya Audit, dan Rotasi Auditor pada Kualitas Audit dengan Moderasi Komite Audit. *Jurnal Tata Kelola Dan Akuntabilitas Keuangan Negara*, 28 (1), 87–102. https://doi.org/10.46984/sebatik.v28i1.2453.

Association of Certified Fraud Examiners. (2022). *Occupational Fraud 2022: A Report to the Nations*. Association of Certified Fraud Examiners https://www.acfe.com/-/media/files/acfe/pdfs/rttn/2022/2022-report-to-the-nations.

Bonrath, A., & Eulerich, M. (2024). Internal auditing's role in preventing and detecting fraud: An empirical analysis. *International Journal of Auditing*. https://doi.org/10.1111/ijau.12342 .

Everstine, K., Popping, B., & Gendel, S. M. (2020). Food fraud mitigation: Strategic approaches and tools. *Food Fraud: A Global Threat with Public Health and Economic Consequences* (pp. 23–43). https://doi.org/10.1016/B978-0-12-817242-1.00015-4.

Fau, A. M. M., Siagian, P., & Sitepu, W. R. B. (2021). Pengaruh Etika Profesi, Kompetensi dan Integritas Auditor terhadap Kualitas Audit (Studi Empiris Pada Kantor Akuntan Publik di Kota Medan). *Owner,* 5 (2), 268–282. https://doi.org/10.33395/owner.v5i2.391.

Girau, E. A., Bujang, I., & Jidwin, A. P. (2022). Corporate governance challenges and opportunities in mitigating corporate fraud in Malaysia. *Journal of Financial Crime*, 29 (2), 620–638. https://doi.org/10.1108/JFC-02-2021-0045.

Halim, N. A. A., Alias, N., & Haron, N. H. (2021). The Relationship between Board Diversity, Board Independence and Corporate Fraud. *Advances in Business Research International Journal,* 7 (1), 33–55. https://doi.org/10.24191/abrij.v7i1.10108 .

Haryani, & Syafruddin, M. (2022). Pengaruh Pengungkapan Struktur Corporate Governance Terhadap Kecurangan Pelaporan Keuangan*. Jurnal Ekonomi Manajemen dan Akuntansi*, 29 (52), 41–55.

Husein, H., Saleh, P. A., Kriaswantini, D., & Bonara, R. S. F. (2023). Deteksi Manipulasi Laporan Keuangan Menggunakan Model Beneish M-Score pada BUMN yang Terdaftar di Pasar Modal. *Jurnal Akuntansi*, 18 (1), 1–10. https://doi.org/10.37058/jak.v18i1.5609.

Jensen, M. C., & Meckling, W. H. (1976). Theory Of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics* (Vol. 3). Q North-Holland Publishing Company.

Juhari, Z., & Joseph, C. (2020). The influence of corporate governance mechanisms on financial structure decision. *Accounting, Finance, Sustainability, Governance and Fraud* (pp. 77–90). https://doi.org/10.1007/978-981-15-1880-5_6.

Julianti, I. K., & Fuad. (2023). The Likelihood of Financial Reporting Fraud: Does the Gender of CEO, CFO, Board of Commissioners, and Audit Committee Matter? *Jurnal Akuntansi Bisnis*, 21(2), 149–172. https://doi.org/10.24167/jab.v21i2.10944.

Kardhianti, O. K., & Srimindarti, C. (2022). Pengaruh Manajemen Laba Dan Good Corporate Governance Terhadap Kecurangan Laporan Keuangan. *Fair Value:*

Jurnal Ilmiah Akuntansi Dan Keuangan, 4 (Spesial Issue 3). https://doi.org/10.32670/fairvalue.v4iSpesial%20Issue%203.1110.

Kementerian Badan Usaha Milik Negara. (2011). *Peraturan Menteri Negara BUMN Nomor PER-01/MBU/2011 tentang Penerapan Tata Kelola Perusahaan yang Baik pada Badan Usaha Milik Negara.* Kementerian Badan Usaha Milik Negara. Jakarta.

Kementerian Badan Usaha Milik Negara. (2002). *Surat Keputusan Menteri BUMN Nomor PER-01/MBU/2011 tentang Penerapan Tata Kelola Perusahaan yang Baik (Good Corporate Governance) pada Badan Usaha Milik Negara.* Kementerian Badan Usaha Milik Negara. Jakarta.

Kementerian Badan Usaha Milik Negara. (2000). *Keputusan Menteri BUMN Nomor 23/MPM/BUMN/2000. Kementerian Badan Usaha Milik Negara*. Jakarta.

Komala, L., & Asaari, M. (2022). Analisis peran satuan pengawasan internal dan komite audit terhadap pencegahan kecurangan. *Jurnal Ilmiah Akuntansi Dan Keuangan,* 4 (12), 2022. https://doi.org/10.32670/fairvalue.v4i12.2215.

Kurniasih, T., & Sari, I.R. (2024). The Influence of The Role of Internal Audit. Audit Committee Characteristics and Internal Control on Fraud Prevention. *SCIENTIFIC JOURNAL OF REFLECTION: Economic, Accounting, Management and Business,* 7(1), 104–116. https://doi.org/10.37481/sjr.v7i1.787.

McGee, J., Sandridge, L., Treadway, C., Vance, K., & Coustasse, A. (2018). Strategies for Fighting Medicare Fraud. *Health Care Manager*, 37 (2), 147–154. https://doi.org/10.1097/HCM.0000000000000204.

Nikmah, N., & Arjoen, M. R. (2023). Financial Statement Fraud, Audit Committee and Audit Quality: Insight into Fraud Diamond Theory. *International Journal of Social Service and Research*, 3 (3), 605–620. https://doi.org/10.46799/ijssr.v3i3.308.

Otoritas Jasa Keuangan. (2015). *Peraturan Otoritas Jasa Keuangan Nomor 21/POJK.04/2015 tentang Penerapan Pedoman Tata Kelola Perusahaan Terbuka.* Otoritas Jasa Keuangan. Jakarta.

Otoritas Jasa Keuangan. (2014). *Peraturan Otoritas Jasa Keuangan Nomor 33/POJK.04/2014 tentang Direksi dan Dewan Komisaris Emiten atau Perusahaan Publik*. Otoritas Jasa Keuangan. Jakarta.

Pengestu, N. R. N. (2021). Peran Tata Kelola Perusahaan Untuk Memitigasi Kecurangan Laporan Keuangan dan Kompensasi Eksekutif Sebagai Variabel Moderasi Pada Perusahaan Publik di Indonesia. *Jurnal Ilmiah Mahasiswa FEB,* Vol.9 (2)*.* https://jimfeb.ub.ac.id/index.php/jimfeb/article/view/7680.

Purwiyanti, D., & Laksito, H. (2022). The Effect of Audit Committee Effectiveness and Potential Fraudulent Financial Statements. *Jurnal AKSI (Akuntansi Dan Sistem Informasi),* 7 (1). https://doi.org/10.32486/aksi.v7i1.273.

Razak, L. A., Rayyani, W. O., & Khaerinniza, S. (2023). Penerapan Good Corporate Governance dalam Meningkatkan Efisiensi Pengelolaan Badan Usaha Milik

Negara. *Perspektif Akuntansi,* 6 (3), 39–57. https://doi.org/10.24246/persi.v6i3.p39-57.

Rehman, A. (2022). With Application of Agency Theory, Can Artificial Intelligence Eliminate Fraud Risk? A Conceptual Overview. *Accounting, Finance, Sustainability, Governance and Fraud*, 115–127. https://doi.org/10.1007/978-981-19-1036-4_8.

Salehi, M., Ammar, R. A., & Zimon, G. (2023). The relationship between corporate governance and financial reporting transparency. *Journal of Financial Reporting and Accounting,* 21 (5), 1049–1072. https://doi.org/10.1108/JFRA-04-2021-0102.

Sari, P. N., & Husadha, C. (2020). Pengungkapan Corporate Governance terhadap Indikasi Fraud dalam Pelaporan Keuangan. *Jurnal Ilmiah Akuntansi Dan Manajemen (JIAM),* 16 (1). https://doi.org/10.31599/jiam.v16i1.108.

Setiawan, K., & Trisnawati, I. (2022). Factors that Affect Fraudulent Financial Reporting. *Media Bisnis*, 14 (2), 189–208. http://jurnaltsm.id/index.php/MB.

Shaqila, B. L. (2021). Pengaruh Tata Kelola Perusahaan terhadap Tindakan Kecurangan Akuntansi Pada Perusahaan Publik di Indonesia. *Jurnal Ilmiah Mahasiswa FEB*, 9(2). https://jimfeb.ub.ac.id/index.php/jimfeb/article/view/7178.

Soomro, Z. A., Shah, M. H., & Thatcher, J. (2021). A framework for ID fraud prevention policies in E-tailing sector. *Computers and Security,* 109. https://doi.org/10.1016/j.cose.2021.102403.

Sudrajat, Suryadnyana, N. A., & Supriadi, T. (2023). Fraud Hexagon: Detection of Fraud of Financial Report in State-owned Enterprises in Indonesia. *Jurnal Tata Kelola Dan Akuntabilitas Keuangan Negara,* 9 (1), 87–102. https://doi.org/10.28986/jtaken.v9i1.1358.

Sugiyono. (2018). *Metode Penelitian Kuantitatif, Kualitatif, dan R&D.* Alfabeta, CV: Bandung.

Susandya, A. A. P. G. B. A. P. G. B., & Suryandari, N. N. A. (2021). Dinamika Karekteristik Komite Audit Pada Audit Report Lag. *Media Riset Akuntansi, Auditing & Informasi*, 21(2), 175–190. https://doi.org/10.25105/mraai.v21i2.9048.

Tangsomchai, C., & Suwanaphan, S. (2020). Reputation of external directors, auditors and earnings management. *Int. J. Business and Globalisation*, 25 (1), 73–94. https://doi.org/10.1504/ijbg.2020.10030017.

Tiapandewi, Y., Suryandari, A. N. N., & Susandya, A. A. P. G. B. A. (2020). Dampak Fraud Triangle Dan Komite Audit Terhadap Kecurangan Laporan Keuangan. *Jurnal Kharisma*, 2 (2), 156–173. https://e-journal.unmas.ac.id/index.php/kharisma/article/view/979.

Valentino, D. G., & Latrini, M. Y. (2024). Pengaruh Kinerja Keuangan Perusahaan, Reputasi Auditor Terhadap Opini Audit "Going Concern" Dengan Ukuran Perusahaan Sebagai Moderasi (Studi Pada Perusahaan Manufaktur Yang

Terdaftar BEI Tahun 2019-2021). *Journal of Economics, Business and Accounting*, 7 (3), 5973–5988. https://doi.org/10.31539/costing.v7i3.9622.

Widowati, A. I., & Oktoriza, L. A. (2021). Analisis Corporate Governance terhadap Financial Statement Fraud. *Jurnal STIE Semarang,* 13 (2), 1–10. https://jurnal3.stiesemarang.ac.id/index.php/jurnal/article/view/506.