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Audit Committee, External Pressure, and Company Size: Key Factors in Detecting Fraudulent Financial Reporting

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ABSTRACT

The research seeks to analyze the role of audit committees, external pressure, and company size in identifying fraudulent financial reporting, supported by empirical findings. The study adopts a descriptive design within a quantitative approach, where data is obtained through purposive sampling and processed using Eviews 12. The findings reveal that neither the audit committee nor the size of the company influences the detection of financial reporting fraud, while external pressure was proven to have an effect. These findings indicate that external pressure is an important factor that can increase the risk of fraudulent practices of financial statements, so company management and regulators need to pay attention to external pressure indicators in order to strengthen the company's control and governance systems.

Keywords: Audit Committee; External Pressure; Company Size; Fraudulent Financial Reporting

1. INTRODUCTION

A financial report provides information regarding a company's achievements and conditions during a given period and provides financial data for decision-making. Financial reports are a summary of the results of the accounting process that can be used as a means to inform individuals who are interested in financial information or company operations (Dharma et al., 2024). As a result, knowledge loses its meaning and leads to poor decision-making. ACFE's report to the Nation on Fraud & Employment Abuse (2020) distinguishes three types of fraud: financial report fraud, asset theft, and corruption. In most cases, asset abuse involves employees abusing resources provided by their management. This leads to an average loss of $100,000 and is responsible for 86% of asset fraud cases. Bribery, conflicts of interest, and extortion are examples of corruption. The average loss of this type of scam is $150,000, and it occurs in 50% of cases. When someone commits financial statement fraud, they intentionally make a significant mistake or omission in the company's financial statements. Even if the frequency is small, it is 9% of cases.

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However, it has the greatest impact on the average loss (median loss), which reaches $593,000 (Nadia et al., 2023). The significant potential losses resulting from financial reporting fraud cases make it an interesting topic to research further. According to an ACFE survey, fraud cases in Indonesia resulted in a total loss of IDR 873.43 billion in 2019. The average loss per case is more than IDR 7 billion, and 38.5% of these incidents involve fraud with losses of more than IDR 1 billion. With losses of IDR 242.26 billion, financial reporting fraud cases rank third among fraud cases with the highest losses (ACFE, 2020). One of the industries with the highest rate of financial reporting fraud is the banking industry. More than 43% of financial reporting fraud occurs in the banking and financial industry, according to a report titled "Fraud is on the rise: how bots and malware are harming APAC applications" published by AppsFlyer. After Vietnam, this figure is the second highest in Southeast Asia (Liputan6.com, 2019). In addition, Based on the 2019 ACFE survey, the banking and financial industries are among the most severely impacted by fraudulent activities that often occur in the business world. According to the analysis, when compared to other businesses, the financial and banking sectors have the highest loss rate from financial statement fraud incidents, which is 41.4%. This shows that businesses engaged in the banking and finance sectors have a strong correlation with the fraudulent activities they carry out.

Diagram of the Types of Industries Most Harmed by Fraud'
Sumber : acfe-indonesia.or.id

According to the 2019 ACFE survey, the banking and finance sectors are the sectors most negatively affected by fraud, with a total loss of 41.4% of all losses related to fraud. According to the ACFE (2018) Report to the Nations, the banking and financial sectors are identified as the most vulnerable to fraudulent activities, which is in line with this study's findings. However, the banking and finance sector ranked second among organizations harmed by fraud in the 2016 Indonesia Fraud Survey (ACFE, 2019) In Indonesia, the banking sector is subject to strict regulations aimed at preventing financial reporting fraud. Nonetheless, financial reporting fraud is still possible if early detection is not carried out. Two major cases involving the banking sector are the Century Bank case, where Bank Indonesia embezzled bailout funds, and the Citibank Indonesia case, which involved money laundering and the discovery of fake financial statements of PT Bank Tabungan Negara (BBTN). Financial statement fraud cases are still an important issue in the Indonesian banking sector. For example, in 2018 the union of Bank Tabungan Negara (BTN) stated that the corporation falsified financial statements by selling bad loans to PT

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Batam Island Marina (BIM) through a cessie mechanism (Republika, 2020). Other facts show that BTN provided an additional credit of IDR 200 billion to BIM, in addition to the initial credit of IDR 100 billion, which was then allegedly not in accordance with its designation (Finansial Bisnis, 2020). A similar phenomenon also occurred in the case of Bank Summa in 2017. The fact revealed is that there are indications of inflating assets and the use of customer funds without their consent. This then raises allegations of the practice of manipulating financial statements and corruption crimes committed by bank management (Tempo, 2017). Although the incident occurred before the 2019–2023 research period, Evidence from BTN and Bank Summa reflects that financial statement fraud in the banking industry is not a recent phenomenon. This phenomenon emphasizes that external pressure to maintain the company's image and maintain investor confidence can encourage management to fabricate financial statements. Ineffective supervision by the audit committee can likewise serve as a contributing factor to fraudulent activities. The size of the company also plays a role, because the larger a bank, the more complex its business activities are, As a result, the probability of fraudulent reporting also escalates. Therefore, this study is focused on the 2019–2023 period to empirically examine the influence of audit committees, external pressure, and company size on fraudulent financial reporting in the Indonesian banking sector.

2. LITERATURE REVIEW

Agency theory explains the existence of a conflict of interest between the principal and the management (agent) that arises due to different objectives and information asymmetry (Jensen & Meckling, 1976). Agents seek to optimize personal interests through increased compensation or reputation, while principals focus on increasing the company's value in the long run. This difference in interests causes agency costs that can encourage management to act opportunistic, including manipulating financial statements (Putri & Anisa, 2024). In other words, This type of misconduct can be understood as a form of fraudulent financial reporting consequence of weak supervisory mechanisms and high opportunities for agents to act deviantly. Fraud, as characterized by the Association of Certified Fraud Examiners (2020), refers to an intentional action aimed at taking money, assets, or legal rights from others through deceit or dishonesty. In the context of auditing, In the framework of Statement on Auditing Standards (SAS) No. 99, Deceptive financial reporting is characterized as as intentional material misrepresentation in financial statements. The COSO report also confirms that the manipulation of financial statements is carried out through material misrepresentations, such as asset inflation, fictitious income recognition, or misleading disclosures (Beasley et al., 2010). Kurnia's research (2020) added that fraudulent financial reporting can occur due to mispresentation, revenue manipulation, or violations of external regulations. Thus, fraudulent

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financial reporting is understood as a specific form of fraud that is rooted in a conflict of interest in an agency relationship. Fraud Triangle (Cressey, 1953) explains that pressure, opportunity, and rationalization are the main factors that cause fraud. This model was later developed into the Fraud Pentagon by adding elements of competence and arrogance (Crowe, 2011). In the context of the company, external pressure arises when management faces external pressure, such as the demands of creditors, shareholders, and regulators to maintain performance stability (Utama et al., 2018). Empirical research in Indonesia shows that external pressures, including high funding needs and debt obligations, are positively related to management's tendency to manipulate financial statements (Andriani et al., 2022; Hapsari et al., 2022). Therefore, external pressure is seen as a crucial factor in encouraging Deceptive financial reporting practices.

The audit committee serves as a governance tool designed to support the board of commissioners in overseeing the financial reporting process, internal control, and the effectiveness of internal and external audits (Anita et al., 2020). The formation of an audit committee is assumed to have the capacity to minimize opportunistic management behavior by increasing transparency and accountability. Research findings indicate that the expertise of audit committees in accounting and finance has a notable influence on decreasing fraudulent financial reporting (Rahmawati & Lestari, 2022). However, other attributes such as the frequency with which meetings are held, audit committee size, and gender diversity do not always consistently affect fraud (Hapsari et al., 2022). This confirms that the quality and competence of audit committee members are more decisive than just quantity. Firm size is generally proxied through total assets, total sales, or market capitalization. Large companies tend to face higher operational complexity, increasing the risk of misreading financial statements (Helin, 2020). International studies (Olatunji & Popoola, 2019) show that large companies have a greater chance of manipulating financial statements due to market pressure and high stakeholder expectations. However, the size of the company can also strengthen the oversight mechanism due to the greater public spotlight (Utama et al., 2018). Thus, the relationship between company size and fraudulent financial reporting can be ambivalent: on the one hand it increases the risk of fraud due to complexity, but on the other hand it decreases the risk due to the presence of strict external supervision.

3. RESEARCH METHODS

This research is a quantitative research with an explanatory research design, which aims to examine the cause-effect relationship between independent variables (audit committee, external pressure, and company size) and dependent variables (fraudulent financial reporting). The research population encompasses all 47 banking institutions listed on the Indonesia Stock Exchange (IDX). Samples were

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chosen using purposive sampling techniques guided by the following factors:

Criteria	Total
Banking companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2023 research period.	47
Banking Companies that publish consecutive financial statements during 2019-2023.	-32
According to Criteria	**15**
Outlier	**-2**
Year of Observation	**5**
Total	**65**

Dependent Variable

The definition of fraud in Tuanakotta (2014) Fraud encompasses unlawful conduct characterized by misrepresentation, concealment, or violation of trust, without reliance on threats or physical force. It may be perpetrated by individuals or organizations aiming to acquire money, assets, or services, to evade financial obligations, or to secure business or personal benefits. The measurement of fraud disclosure in this study was conducted using the Fraud Score Model (F-Score). Calculation model by determining the average and standard deviation of the F-score, In this study, the F-score variable is constructed from two indicators identifiable in financial statements: accrual quality, represented by RSST accruals, and financial performance. The F-score calculation method is formulated as follows (Setyadi, et al. 2024):

F-Score = Accrual Quality + Financial Performance

The accrual quality component consists of all changes in the company's current assets, but there are exceptions to cash and non-equity data contained in the company's financial statements. The accrual quality formula is as follows:

$$\textbf{RSST accrual} = \frac{\triangle WC + \triangle NCO + \triangle FIN}{Average\ Total\ Assets}$$

Description:

WC = *(Current Assets – Current Liabilities)*
NCO = *(Total Assets – Current Assets – Investment and Advances) – (Total Liabilities – Current Liabilities – Long Term Debt)*
FIN = *(Total Investment – Total Liability)*
Average Total Assets = (Beginning Total Assets + End Total Assets) / 2

Financial performance can be assessed through several indicators, including variations in receivables, inventory levels, cash sales, and earnings, the formula is as follows:

Financial Performance = Change in Receivables + Change in Inventories + Change in Cash Sales + Change in Earnings

Description:

$$Change\ In\ Receivables = \frac{\triangle Receivables}{Average\ Total\ Assets}$$

$$Change\ in\ Inventories = \frac{\triangle Inventories}{Average\ Total\ Assets}$$

$$Change\ in\ Cash\ Sales = \frac{\triangle Sales}{Sales\ (t)} - \frac{Receivables\ (-t)}{Receivables\ (t)}$$

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$$Change\ in\ earning = \frac{Earnings\ (t)}{Average\ Total\ Assets\ (t)} - \frac{Earnings\ (t-1)}{Average\ Total\ Assets\ (t-1)}$$

Independent Variable

Audit Committee

According to Rizki & Wuryani (2021), "The audit committee indicators are as follows":

Audit Committee = Number of audit committee members

External Pressure

Pressure to commit financial statement fraud by management can also occur if the company has high debt liabilities to external parties. Debt that is too high will also create a high sense of pressure on the management because the company has to pay off all its debts in the agreed period. Debt that is too high will also be considered bad by the principal because the principal thinks that the company is unable to pay off its debts. The external pressure measurement in this research uses a leverage ratio (LEV) which divides the total debt from the total assets owned by the company (Sari & Nugroho, 2020).

$$LEV = \frac{\text{Total Debt}}{\text{Total Asset}}$$

This suggests that a higher leverage ratio is associated with an increased likelihood of financial statement fraud by management.

Company Size

The size of a company can be seen from the total assets owned by the company. The size of the company is proxied by the Ln (natural logarithm) total assets (Putri & Anisa, 2024). Firm size can be assessed through the use of the following equation:

Company Size = *Ln* (total asset)

Data Analysis Techniques

The data analysis technique in this study uses descriptive statistical analysis and panel data regression, by determining which model is most suitable. In addition, a classical assumption test was also carried out to ensure that the regression model used met the various basic assumptions needed so that the regression results were reliable and valid

4. RESULT AND DISCUSSION

Descriptive statistical results of this study are displayed in the table below:

Table 1 Descriptive Analysis Test Results

	FAUD	*AC*	*PRESURE*	*SIZE*
Mean	-0.409012	4.092308	0.700584	20.43641
Median	-0.012858	4.000000	0.837721	19.54156
Maximum	2.124872	7.000000	1.567740	30.17659
Minimum	-7.254.483	3.000000	4.20E-07	16.17711
Std. Dev.	1.720458	1.343073	0.334509	3.601849
Skewness	-2.213.250	1.000805	-1.228.860	1.385758
Kurtosis	8.693507	2.834715	4.065261	4.042882
Observations	65	65	65	65

Source: Processed data using Eviews 12.

Descriptive statistics are reported in Table 1,

are described for independent variables, namely Audit Committee (X1), External Pressure (X2), Company Size (X3) and dependent variables for Fraud Disclosure (Y).

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The Fraud Disclosure shows a minimum value of -7.25 and a maximum of 2.12. The average value of -0.40 with a standard deviation of 1.72 indicates that in general the level of fraud disclosure in banking companies is relatively low and tends to fluctuate. Standard deviation values higher than mean indicate large variations between banks in terms of potential or indications of fraudulent disclosure. This shows that some banks have significant fraud rates, while others are relatively lower.

The Audit Committee showed a minimum score of 3.00. The maximum score is 7.00. A mean score is 4.09 and the standard deviation is 1.34. This means that in general, the amount of individuals serving on the audit committee in banking companies in Indonesia is in the range of four people, in accordance with the provisions of OJK regulations which require a minimum of three members. The relatively small standard deviation suggests that the number of audit committee members is fairly uniform between banks, so the difference in audit committee effectiveness may be influenced more by the quality and independence of its members than by its number.

Descriptive analysis indicates that external pressure ranges from a minimum of 4.20 to a maximum of 1.56, with an average of 0.70 and a standard deviation of 0.33. This figure indicates that in general Indonesian banks are at a moderate level of external pressure. A low standard deviation indicates a relatively small degree of variation, so the majority of banks face pressure from external parties (e.g. investors, regulators, or creditors) with almost the same intensity.

Descriptive results indicate that company size ranges from a minimum of 16.17 to a maximum of 30.17, with an average of 20.43 and a standard deviation of 3.60. This reflects that the banking companies in the average research sample have a sizable total assets, with considerable variation between companies. A higher standard deviation indicates a significant asset size gap between large banks (e.g. BUMN banks) and small or medium-sized banks. This difference in size is important because it can affect a company's ability to manage risk, form an effective audit committee, and face external pressures.

1. Normality Test

To assess the data, this research applied the Jarque-Bera (JB) test with a probability significance test criterion of > 0.05.

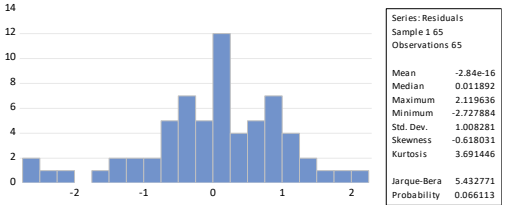

Figure 1 Normality Test

Based on Figure 1, the probability value is greater than the alpha significance value of 5%, which is 0.066113, so it can be concluded that the probability of probability is 0.066113 > 0.05. This means that the residual is normally distributed, so the classical assumptions in the regression model have met the normality assumptions.

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2. Test of Multicollinearity

The multicollinearity test in this study uses the paired correlation method because the researcher feels that the paired correlation method will be more useful and can find out in detail the independent variables that have a strong correlation for the multicollinearity test.

a. If the value of each independent variable is >0.90, then there is multicollinearity between independent variables in the regression-based analysis.
b. However, if the value of each independent variable is <0.90, then there is no multicollinearity between independent variables in the regression-based analysis.

Table 2 Multicollinearity Test Results

	Fraud	***AC***	***Pressure***	***Size***
Fraud	1.000000	-0.018852	0.300484	-0.031192
AC	-0.018852	1.000000	-0.211349	-0.194139
Pressure	0.300484	-0.211349	1.000000	0.463047
Size	-0.031192	-0.194139	0.463047	1.000000

Source: Processed data using Eviews 12

Based on the multicollinearity test results, it is shown that each independent variable's correlation coefficient value <0.90, then it can be concluded that there is no multicoloniality between independent variables or in other words the assumption of multicoloniality is met.

3. Heteroscedasticity Test

The heteroscedasticity test can be measured using the white test with the following conditions:

a. If the probability value of chi square is a heterokedasticity test < α (0.05) then H0 is rejected
b. If the probability value of chi square is a heterokedasticity test > α (0.05) then H0 is accepted.

Table 3 Heteroscedasticity Test Results

Heteroskedasticity Test: Glejser
Null hypothesis: Homoskedasticity

F-statistic	0.183270	Prob. F(3,61)	0.9074
Obs*R-squared	0.580629	**Prob. Chi-Square(3)**	**0.9009**
Scaled explained SS	0.897071	Prob. Chi-Square(3)	0.8261

Source: Processed data using Eviews 12.

The results of the heteroscedasticity test in Table 4 show that the probability value in this study is greater than 0.05. Therefore, it can be concluded from the results obtained that all H0 for independent variables are accepted, meaning that there is no heteroscedasticity in independent variables.

4. Autocorrelation Test

One way that can be used to detect the presence or absence of autocorrelation is the Durbin-Watson test (DW test). Decision-making on whether or not there is autocorrelation According to Ghozali (2018) as follows:

a. A Durbin-Watson statistic lower than -2 suggests a positive autocorrelation, while values within the interval of -2 to +2 imply no evidence of autocorrelation.
b. A Durbin-Watson statistic above +2 indicates a negative autocorrelation.

Autocorrelation test results are reported below:

Table 4 Autocorrelation Test

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Root MSE	1.594338
Mean dependent var	-0.409012
S.D. dependent var	1.720458
Akaike info criterion	3.893871
Schwarz criterion	4.027679
Hannan-Quinn criter.	3.946667
Durbin-Watson stat	**2.237402**

Source: Processed data using Eviews 12.

Based on Table 4, the Durbin-Watson (DW) statistic is 2.237402, which falls within the range of -2 to +2. Therefore, it can be inferred that the data analyzed in this study does not exhibit any autocorrelation issues.

5. Hypothesis Test Results

Based on the results of the Chow-Test and Lagrange Multiplier Test tests, the regression model selected is the Common Effect Model (CEM). The data of this study uses a balanced panel, which involves 47 banks listed on the IDX during the designated research timeframe, so that each cross-section unit has the same number of time-series observations. Accordingly, the estimation of the CEM model employed the Ordinary Least Squares (OLS) technique across all pooled data.

Here are the results of the t-test based on the selected model.

Table 5 Results of the t test

Dependent Variable: *Fraud*
Method: Panel Least Squares
Sample: 2019 2023
Periods included: 5
Cross-sections included: 13
Total panel (balanced) observations: 65

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.475177	1.676557	1.476345	0.1450
AC	0.032286	0.157690	0.204741	0.8385
Pressure	1.393683	0.469102	2.970960	0.0042
Size	-0.102090	0.064842	-1.574443	0.1206

Source: Processed data using Eviews 12

Based on the test results in Table 5, it can be concluded as follows:

a. The first hypothesis test produced a t-statistic of -0.204741, which is lower than the t-table value of 1.99834, and supported by a significance level of 0.8385 (> 0.05). Accordingly, H0 is accepted while H1 is rejected, indicating that the Audit Committee does not influence the detection of Fraudulent Financial Reporting.

b. The second hypothesis test yielded a t-statistic of 2.970960, exceeding the t-table value of 1.99834, with a significance level of 0.0042 (< 0.05). Therefore, H0 is rejected and H2 is accepted, suggesting that External Pressure has a significant positive impact on detecting Fraudulent Financial Reporting.

c. The third hypothesis test showed a t-statistic of -1.574443, which is below the t-table threshold of 1.99834, with a significance value of 0.1206 (> 0.05). As a result, H0 is accepted and H3 is rejected, implying that Company Size has no significant effect on detecting Fraudulent Financial Reporting.

Table 6 F Test Results

Root MSE	1.594338	R-squared	0.127821
Mean dependent var	-0.409012	**Adjusted R-squared**	**0.084927**
S.D. dependent var	1.720458	S.E. of regression	1.645781
Akaike info criterion	3.893871	Sum squared resid	165.2243
Schwarz criterion	4.027679	Log likelihood	-122.5508
Hannan-Quinn criter.	3.946667	**F-statistic**	**2.979914**
Durbin-Watson stat	2.237402	**Prob(F-statistic)**	**0.038265**

Source: Processed data using Eviews 12.

The results of the fourth hypothesis test obtained a fcal value of > ftable or 2.979914 > 2.76 strengthened with a Sig. value of < 0.05 or 0.038265 < 0.05. Thus H0 is rejected and H4 is accepted. Therefore, it can be concluded that simultaneously the Audit Committee, External Pressure and Company Size have an effect in detecting Fraudulent Financial Reporting. Based on Table 6, the

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Adjusted R-squared value of 0.0849 was obtained, which shows that the independent variable has an effect of 8.4%. While the rest is explained by other variables outside the variables in this research model.

The Influence of the Audit Committee in Detecting Fraudulent Financial Reporting

The findings from the first hypothesis testing indicate that the calculated t-value is lower than the t-table value, namely -0.204741 < 1.99834, and supported by a significance level of 0.8385 > 0.05. Therefore, H0 is accepted while H1 is rejected, leading to the conclusion that the Audit Committee does not significantly influence the detection of Deceptive Financial Reporting.

The main problems in agency theory are Information gaps and divergence of interests, which can lead to opportunistic behavior from agents that are not always in line with the principal's objectives which can ultimately trigger The emergence of misleading financial reporting can occur when agents exploit the chance to adjust financial statements, presenting them as more profitable than they truly are. To address this, the Board of Commissioners establishes an audit committee tasked with overseeing the company's activities, which include assessing financial information, monitoring internal controls, evaluating risk management, ensuring the effectiveness of both internal and external audits, and verifying compliance with applicable regulations and laws. The role of the audit committee is as a mediator between the principal and the agent (Bapepam, Regulation Number IX.1.5, 2004).

The results of this study show that the small number of audit committees has no effect on detecting financial statement fraud. Although audit committees have a role to oversee the integrity of financial statements and the audit process, their effectiveness is highly dependent on their independence and functioning. If the audit committee is not completely independent of the company's management (for example, there is a conflict of interest or management influence on their decisions), then they may not be able to detect or prevent fraud, even if they are numerous. In contrast, audit committees with few members who have deep expertise in accounting and finance can be more effective in identifying the problem of financial statement fraud. These results are in line with the results of research by Ihsanti, et al., (2023) which show that the audit committee has no effect on financial reporting fraud.

The appointed audit committee must be neutral in order to carry out its duties. This indicates that the audit committee is neither the owner nor the manager, and thus holds no direct interest in the business. The audit committee has no family relationship with any member of the company nor any ownership in the designated business. It is essential for the audit committee to possess expertise in finance and accounting. By doing this, the audit committee will be able to independently evaluate the material it receives, recognize problems, and offer appropriate solutions (OJK Regulation No. 55,

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2015).

Companies that have an independent audit committee will be able to reduce irregularities that can be carried out by management. As stated by Mardani, et al. (2020) that the results of Studies on audit committees reveal that they exert a significant influence on the disclosure of fraud in companies.

The Effect of External Pressure in Detecting Fraudulent Financial Reporting

The findings of the second hypothesis test indicate that the calculated t-value exceeds the t-table (2.970960 > 1.99834) with a significance level of 0.0042 < 0.05. Accordingly, H0 is rejected while H2 is accepted, leading to the conclusion that External Pressure has a significant positive influence on the detection of Fraudulent Financial Reporting.

The results of the study show that the higher the leverage, the more influential it is in detecting financial statement fraud. High leverage often indicates that the company has a significant liability burden, which can create a situation that affects the manager's behavior and encourages fraud or manipulation of financial statements. In these conditions, there is the potential to manipulate financial statements, such as admitting revenue faster, delaying expense recognition, or using aggressive accounting techniques to improve the appearance of short-term financial performance. High leverage increases the risk of bankruptcy. Companies at risk of default may feel compelled to hide their financial problems by manipulating financial statements to make them appear more stable and solvent to creditors or investors (Erawati & Tunnajiha, 2023).

Thus, it is important to state that the likelihood of financial statement fraud or financial statement occurrence increases along with the magnitude of external pressure represented by the leverage ratio (Nugraheni et al., 2017).

According to the study performed by Rachmania (2017), Utama et al., (2018), Lestari & Florensi (2022) proves that external pressures have a significantly impacts financial practices. The findings suggest that when a company carries a high level of debt, creditors tend to monitor its performance more closely. Such conditions create additional pressure on management to present financial reports that reflect favorable outcomes, which may lead to the occurrence of financial reporting manipulation.

The Influence of Company Size in Detecting Fraudulent Financial Reporting

The findings of the third hypothesis test obtained a tcal value <ttable or -1.574443 < 1.99834 strengthened with a significance value of 0.1206 > 0.05, H0 is accepted while H3 is rejected. Thus, it can be concluded that firm size does not have an influence on the detection of fraudulent financial reporting.

The research results indicate that the size of the company has no effect in detecting fraudulent financial reporting. This finding is in line with Fuadin (2017) who stated that manipulation of financial statements can occur in both companies with large and small assets. Thus, the size of assets is not

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necessarily an indicator of vulnerability or the ability for the purpose of detecting financial reporting fraud.

According to the Agency Theory framework, large companies tend to face more complex conflicts of interest between principals and agents. Large companies have a higher degree of separation of ownership and control, so agency costs also increase. This condition has implications for the increasing monitoring cost required to supervise management, so that the effectiveness of supervision of financial statement manipulation practices decreases. In other words, even though large companies have more resources to support oversight mechanisms, increasing organizational complexity, the breadth of management structures, and high monitoring costs can actually open up loopholes for fraud.

The research results indicate are in line with Fuadin (2017) and Siswantoro (2020) who agreed to explain that the size of the company is not able to influence the fraud of the company's financial statements.

5. CONCLUSION

The Audit Committee has proven to be ineffective in detecting fraudulent financial reporting. This shows that the existence of audit committees alone, without considering the independence, competence, and expertise of its members, has not contributed to increasing the effectiveness of supervision against potential fraud. These findings are important because they emphasize that the quality of audit committees is more decisive than just the number of members.

Leverage, as a form of external pressure, shows a positive impact on identifying fraudulent reporting. This indicates that higher debt obligations intensify the possibility of detecting such fraud, the greater the incentive for management to manipulate financial statements in order to maintain the trust of creditors and investors. These findings emphasize the importance of companies maintaining a sound capital structure so as not to get caught up in opportunistic practices that harm stakeholders.

Company size has no effect on fraudulent financial reporting. This shows that both large and small companies have an equal chance of manipulating financial statements. These findings are important because they provide evidence that the organizational complexity of large companies does not automatically improve the ability to prevent or detect fraud.

LIMITATIONS

This study only focuses on financial institutions in the banking sector that released complete financial statements between 2019 and 2023, with the focus of the variables studied only the audit committee, external pressure and company size with a determination result of only 8.4%.

SUGGESTION

It is hoped that the next researcher can use other variables that may provide a greater influence in detecting fraudulent financial disclosures, as well as use a larger

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sample so that the results are more representative.

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