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THE ROLE OF AUDIT COMMITTEE IN FRAUDULENT FINANCIAL REPORTING

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ABSTRACT

This study aims to analyze the direct effects of external pressure, effective monitoring, changes in auditors, changes in directors, and CEO picture on fraudulent financial reporting, as well as investigate the role of the audit committee as a moderating variable. The study draws on the pentagon fraud theory, which includes pressure, opportunities, rationalization, and capability, to explain the factors influencing fraudulent financial reporting. In this framework, external pressure is measured by external factors, opportunities by effective monitoring, rationalization by changes in auditors, and capability by changes in directors. CEO picture is used as a proxy for arrogance. The F-Score model is employed to assess the potential for fraudulent financial reporting. The sample consists of 80 state-owned companies listed on the Indonesia Stock Exchange (IDX), selected through purposive sampling based on specific criteria. The study uses secondary time-series data from 2020 to 2023, sourced from IDX.com and the official websites of state-owned companies. A quantitative research approach is applied, with panel data regression analysis and hypothesis testing conducted using WarpPLS 7.0 and the coefficient of determination test. The findings reveal that external pressure, changes in auditors, and CEO picture significantly influence fraudulent financial reporting. Furthermore, CEO image, moderated by effective corporate governance, is found to impact the ability to detect fraudulent financial reporting.

Keywords: Audit Committee, Fraudulent Financial Reporting, Fraud Pentagon

ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh langsung dari tekanan eksternal, pemantauan yang efektif, perubahan auditor, perubahan direksi, dan foto CEO terhadap kecurangan pelaporan keuangan, serta menyelidiki peran komite audit sebagai variabel moderasi. Penelitian ini mengacu pada teori penipuan pentagon, yang mencakup tekanan, peluang, rasionalisasi, dan kapabilitas, untuk menjelaskan faktor-faktor yang memengaruhi kecurangan pelaporan keuangan. Dalam kerangka ini, tekanan eksternal diukur dengan faktor eksternal, peluang diukur dengan pemantauan yang efektif, rasionalisasi diwakili oleh perubahan auditor, dan kapabilitas diwakili oleh perubahan direksi. Foto CEO digunakan sebagai proksi untuk arogansi. Model F-Score digunakan untuk menilai potensi kecurangan pelaporan keuangan. Sampel penelitian ini terdiri dari 80 perusahaan milik negara yang terdaftar di Bursa Efek Indonesia (BEI), yang dipilih melalui teknik purposive sampling berdasarkan kriteria tertentu. Penelitian ini menggunakan data sekunder berupa data deret waktu dari tahun 2020 hingga 2023, yang diperoleh dari situs web IDX.com dan situs web resmi perusahaan BUMN. Pendekatan penelitian yang digunakan adalah kuantitatif, dengan analisis regresi data panel dan uji hipotesis menggunakan WarpPLS 7.0 serta uji koefisien determinasi. Hasil penelitian menunjukkan bahwa tekanan eksternal, perubahan auditor, dan foto CEO memiliki pengaruh signifikan terhadap kecurangan pelaporan keuangan. Selain itu, foto CEO yang dimoderasi oleh tata kelola perusahaan yang efektif terbukti memengaruhi kemampuan dalam mendeteksi kecurangan pelaporan keuangan.

Kata Kunci: Komite Audit, Kecurangan Laporan Keuangan, Kecurangan

1. INTRODUCTION

Despite recognizing the importance of transparent financial reporting, company management often manipulates financial statements to appear more attractive to investors, driven by incentives such as profit bonuses, without considering the long-term reputational risks (Agustina & Pratomo, 2019). This deceptive practice, known as fraudulent financial reporting, prioritizes managerial interests over actual financial conditions, leading to severe consequences, including financial instability, business losses, and potential bankruptcy (Komera & Lukose PJ, 2014) . Even with corporate governance mechanisms in place, fraud remains prevalent across various sectors, highlighting the persistent vulnerability of companies to unethical financial practices (Gaaya et al., 2017).

Detecting fraudulent financial reporting from its early stages is crucial, as prevention is far more effective than dealing with the often irreversible consequences (Setyono et al., 2023). Fraud, as described by (Singleton, 2007), involves intelligence-driven manipulation by individuals for personal gain, and financial ratios can be used to detect potential fraud. Various studies, including those by (Aprilia, 2017), and others, have explored fraudulent financial reporting through the lens of the fraud pentagon theory.

Contradictory findings suggest that audit committees may not consistently effectively moderate fraud risks (Allegrini et al., 2012). These inconsistencies highlight the complexity of fraudulent financial reporting and the need to evaluate corporate governance mechanisms continuously. Strengthening governance structures and enhancing regulatory enforcement are essential to minimizing financial fraud and maintaining stakeholder trust. Fraudulent financial reporting remains prevalent in Indonesian business entities, with inconsistent research findings highlighting the need for further empirical study on the influence of pressure, opportunity, rationalization, capability, and arrogance in financial fraud. Understanding these factors and the role of corporate governance in mitigating them is crucial to reducing fraud risks. This research aims to enhance scientific knowledge by integrating agency theory with the fraud pentagon perspective, providing insights for company managers, shareholders, and stakeholders in detecting and preventing fraud. Additionally, it seeks to support regulators, particularly the OJK, in refining anti-fraud regulations beyond POJK No. 39/POJK.03/2019, ensuring broader corporate governance enforcement across all industries to protect public interests.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Fraud Pentagon Theory

The Fraud Pentagon concept was introduced by (Howarth, 2012), stating that the elements of the fraud pentagon consist of pressure, opportunity, rationalization, capability, and arrogance. This theory is an extension of the Fraud Triangle, first proposed by Cressey in 1953, and the Fraud Diamond, introduced by (Wolfe, David T., 2004). According to the Fraud Triangle Theory, three main factors drive individuals to commit financial statement fraud: pressure, opportunity, and rationalization. Over time, this theory has evolved with the addition of capabilities that significantly influence fraudulent behavior, leading to the development of the Fraud Diamond Theory (Wolfe, David T., 2004). The latest theory that reveals various factors related to the elements that can detect fraud is the fraud pentagon theory. Yulianti et al., (2019) said competence is a person's ability to commit fraud. The first fraud theory was proposed by (Cressey, 1953), namely the fraud triangle theory, which consists of pressure, opportunity, and rationalization. Several years later, the fraud diamond theory was created by Wolfe and Hermanson to perfect the previous theory by including the element of ability. Then (Howarth, 2012)redeveloped the theory from Wolfe and Hermanson, which explained that fraud committed by someone can be based on five aspects: pressure, opportunity, rationalization, competence, and arrogance (Howarth, 2011).

External Pressure on Fraudulent Financial Reporting Indications.

External pressure is excessive pressure on management to meet the achievements set by the company, which can lead to fraud. External pressure can be in the form of the ability to obtain loans from outside the company and the ability to repay loans (Aulia Haqq & Budiwitjaksono, 2020). The demand for high returns from the company is essential because this is needed to convince creditors that they can pay their debts (Tarmizi Achmad et al., 2023). However, in practice, high debt levels do not always motivate companies to make false financial reports, given the supervision of creditors, as expressed by (Bawakes et al., 2018; Purwaningtyas & Ayem, 2021; Sasongko & Wijayantika, 2019; Setiawati & Baningrum, 2018; Thamlim & Reskino, 2023). In facing challenges related to financial reporting, research by (Tarmizi Achmad & Pamungkas, 2018; Apriliana & Agustina, 2017; Aulia Haqq & Budiwitjaksono, 2020; Utami & Pusparini, 2019) showed a positive relationship between external pressure and indications of fraudulent practices in financial reporting. Based on this, the third hypothesis can be formulated as follows:

H1: External Pressure affects Fraudulent Financial Reporting Indications.

Effective Monitoring on Fraudulent Financial Reporting Indications.

Fraud is one of the impacts of weak supervision, which allows agents or managers to behave defiantly by committing fraud (Purwaningtyas & Ayem, 2021). Owners do not have the same access to information as management. Therefore, to control management performance and create harmony between management and owners, effective monitoring by an independent party is needed to prevent potential managerial fraud (Thamlim & Reskino, 2023). Independent supervision is usually done by placing several independent commissioners in the company. According to Law No. 40 of 2007 concerning Limited Liability Companies, the board of commissioners has an important role in overseeing management policies and the course of management in general, both related to the company and the company's business itself, as well as providing advice to the board of directors. Based on this explanation, the hypothesis proposed in this study is:

H2: Effective Monitoring affects Fraudulent Financial Reporting Indications.

Change in Auditor on Fraudulent Financial Reporting Indications.

Auditors play an essential role in overseeing financial statements. Through their role, we can identify companies involved in fraudulent practices. Companies that commit fraud tend to change auditors more often; this aims to reduce the possibility of fraud being detected in their financial statements (Rachmawati & Marsono, 2014). In a study conducted by (Tarmizi Achmad et al., 2022) it was stated that companies change auditors to prevent fraud findings. This step was taken to erase traces of fraud that previous auditors may have found. With a new auditor, understanding the company's condition will take longer, making it more difficult for the auditor to detect fraud that occurs, mainly due to time constraints in the audit process. The results of studies conducted by (Anggun Anindita Ghaisani, 2022) also show that changing auditors has a significant effect on fraud in financial statements.

H3: Change in Auditor Affects Fraudulent Financial Reporting Indications.

Change in Director on Fraudulent Financial Reporting Indications.

According to (Setyono et al., 2023), a change of directors is an attempt by the company to get rid of directors who are considered to know about the fraud committed by the company, and the change of directors is deemed to require adaptation time. The results of research by (Sari, Pramasheilla, et al., 2020) stated that if carried out ineffectively, it will create loopholes for committing financial reporting fraud. (Wolfe, David T., 2004) mention several characteristics possessed by perpetrators of fraud, namely position, brains, confidence, coercion skills, effective lying, and immunity to stress. Based on these characteristics, the positions of the president, director, directors, and other division heads are the most appropriate to these characteristics. The change of directors could be an attempt by the company to get rid of directors who are considered to know about the fraud committed by the company (Tessa & Harto, 2016). Therefore, the formulation of the fourth hypothesis can be described as follows:

H4: Change in Director Affects Fraudulent Financial Reporting Indications.

CEO Picture on Fraudulent Financial Reporting Indications.

The authority held by this agent will create a superiority trait. In the Pentagon fraud theory, arrogance is explained as an arrogant trait that arises due to the recognition of the position held so that one considers oneself superior to others. This trait creates the assumption that various internal company supervisions will not apply to them Fraud. A CEO wants public recognition of the position and Position held in a company (Nanda et al., 2019), it was stated that arrogance has an influence on fraudulent financial reporting. Therefore, the hypothesis formed in this study

H5: CEO Picture Affects Fraudulent Financial Reporting Indications.

Audit committee and Determinant Fraud Pentagon on Fraudulent Financial Reporting Indications.

With an audit committee as part of good governance practices, the company can reduce the adverse effects of external pressure that encourages the company to present inaccurate financial reports. Research conducted by (Greenlee et al., 2007) shows that the audit committee, as a supervisor, can reduce the impact of external pressure related to the possibility of incorrect financial reports because it can prevent the competent authorities from presenting reports that surround them. On the other hand, (Jullani et al., 2020) argue that the audit committee's role actually strengthens the impact of external pressure related to unauthorized financial reporting.

The existence of an audit committee aims to support the function of the board of commissioners, especially in supervising the company's financial statements. Therefore, the synergy between adequate supervision and reducing the risk of fraudulent financial reporting becomes more potent with the presence of an audit committee in the organization (Nugroho & Diyanty, 2022) when a company faces ineffective supervision (monitoring is not running well) but still implements good governance, the risk of dishonest financial reporting can be minimized. On the other hand, research conducted by (Oktaviany & Reskino, 2023)shows that weak supervision can open up opportunities for management to commit fraud in financial statements, regardless of the presence of an audit committee in the company's management structure.

The audit committee acts as a regulator to change the auditor to overcome fraud in financial reporting. It is hoped that an audit committee in a company can support the company in continuing to operate positively and avoid potential fraud in its financial statements. The longer the audit committee carries out its duties, the more it reduces the possibility of fraud in financial reporting (Nanda et al., 2019). Research conducted by (Bawekes et al., 2018) shows that the audit committee impacts financial reporting fraud.

The existence of an audit committee can moderate the change of directors as a mechanism of Pentagon fraud against financial reporting fraud. This is based on a study by (Lefina Boboy et al., 2022) which shows that the existence of an effective audit committee can reduce the possibility of abuse of power through changes in directors related to possible fraud in financial reporting. However, according to research by (Widianto & Sari, 2017), the existence of an independent audit committee does not guarantee that it can reduce the positive impact of leadership changes in an organization when faced with signs of fraudulent financial reporting that has occurred.

The audit committee can moderate the frequency of the appearance of the CEO's image as a Pentagon fraud mechanism against financial statement fraud. TheThe audit committee is expected to supervise every movement of the management team, directors, and CEO and ensure the implementation of good corporate governance principles (Handoko et al., 2020). The results of Suhardjanto, D., Aprilyana, W. T., & Setiany, (2018) study show that the audit committee impacts Fraudulent Financial Reporting.

H6: The audit committee moderates external pressures on Fraudulent Financial Reporting Indications.

H7: The audit committee moderates effective monitoring on Fraudulent Financial Reporting Indications.

H8: The audit committee moderates change in auditor on Fraudulent Financial Reporting Indications.

H9: The audit committee moderates change in directors on Fraudulent Financial Reporting Indications.

H10: The audit committee moderates CEO Picture on Fraudulent Financial Reporting Indications.

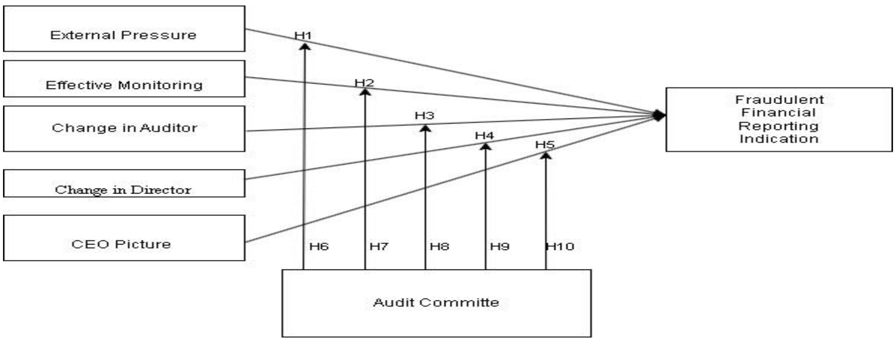

Figure 1. Theoretical Framework

3. RESEARCH METHOD

This research is a causal study that employs hypothesis testing. This study aims to examine the effect of one variable on changes in another variable (Bougie & Sekaran, 2016). The method used in this research is a quantitative descriptive analysis. Data analysis uses the Partial Least Square (PLS) method with WarpPLS 7.0 as the analytical tool. This approach is chosen because regression requires discarding a significant amount of data to meet the normality assumption. Therefore, PLS is used due to its advantage of being free from the normality assumption (Ghozali, 2018). The data used in this study is secondary data obtained from the annual reports of State-Owned Enterprises (SOEs) listed on the Indonesia Stock Exchange for the 2020-2023 period, selected using purposive sampling techniques. The sampling criteria for this study are explained in Table 1. This research employs analysis using the equation model as follows:

$$FFR = a + \beta_1 ROA + \beta_2 EfMon + \beta_3 AChange + \beta_4 DChange + \beta_5 CEOPic + \beta_6 ROA*AC + \beta_7 BDOUT*AC + \beta_8 AChange*AC + \beta_9 DChange*AC + \beta_{10} CEOPic*AC + e$$

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Table 1. Data Collection Techniques

No.	Criteria	Total Data (2020-2023)
1	State-owned company that consistently listed on the indonesia stok Exchange during the 2020-2021 period.	52
2	State-owned company that do not present financial statments ended on December 31 in Indonesia Rupiah Currency.	(32)
3	State-owned company that did not publish annual reports and financial reports consecutively during 2020-2021 period.	20
4	State-owned company that did not provide CEO duality, audit commite,and institutional ownership data related to the research variables during the 2020-2023	4
	Total observation data during research	80

Result

The Descriptive Statistics table is presented in Table 2.

Table 2. Descriptive Statistics

Variables n = 80		**Descriptive Statistics**		
	Minimum	Maximum	Mean	Std. Deviation
X1_ExPress	0,001	1	0,575	0,278
X2_EfMon	0,2	1,4	0,427	0,2
X3_AChange	0	1	0,075	0,265
X4_DChange	0	1	0,45	0,501
X5_CEOArr	3	1	7,15	2,279
Y_AComm	3	12	4,175	1,065
Z_FFR	0	8	0,163	0,371

Based on the analysis in Table 3, it can be observed that the F-Score, total accruals, and change in director variables exhibit a standard deviation greater than their respective mean values, indicating that the data for these variables is heterogeneous. In contrast, the variables of financial pressure, effective monitoring, CEO image, audit committee, and institutional ownership have standard deviations smaller than their mean values, suggesting that the data for these variables is homogeneous. This indicates that the quality of the data in this study is generally robust and reliable. The results of the inner model test are presented in Table 3. The summary results of the tests are presented in table 4 and Summary Test Results WarpPLS 7.0 is presented in Figure 2.

Table 3. Inner Model Test

Model fit and Quality Indices	**Fit Criteria**	**Analysis Results**	**Decision**
Average Path Coefficient (A.P.C.)	P < 0,1	P=0,065	Accepted
Average R-Squared (A.R.S.)	P < 0,1	P=0,046	Accepted
Average Adjusted R-Squared (A.A.R.S.)	P < 0,1	P=0,216	Rejected
Average block V.I.F. (A.V.I.F.)	Acceptable if ≤ 5, ideally ≤3,3	1,601	Ideal
Average full collinearity V.I.F. (A.F.V.I.F.)	Acceptable if ≤ 5, ideally ≤3,3	1,757	Ideal
Tenenhaus GoF (GoF)	Small ≥ 0,1, medium ≥ 0,25, large ≥ 0,36	0,397	Large
Sympson's paradox ratio (S.P.R.)	Acceptable if ≥ 0,7, ideally =1	0,7	Accepted
R-squared contribution ratio (R.S.C.R.)	Acceptable if ≥ 0,9, ideally =1	0,959	Accepted
Statistical suppression ratio (S.S.R.)	Acceptable if ≥ 0,7	0,6	Rejected
Nonlinear bivariate causality direction ratio (N.L.B.C.D.R.)	Acceptable if ≥ 0,7	1	Accepted

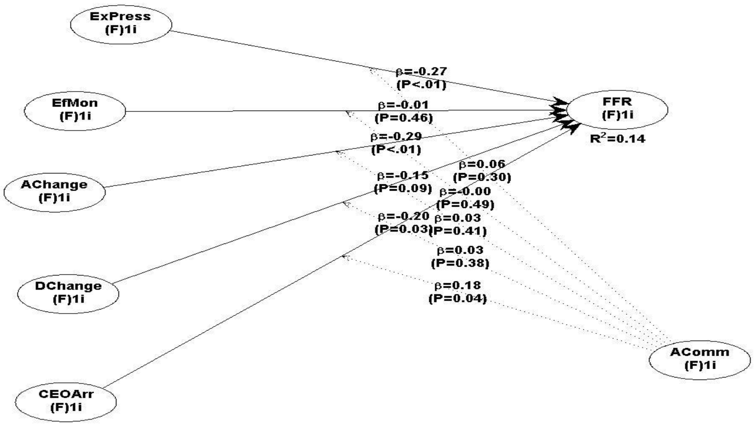

Figure 2. Summary Test Results WarpPLS 7.0

Table 4. Summary Test Results

Hypothesis	P-value	Coefficient	Decision
	(α=5%)		
H1=ExPress-->FFR	0.006	-0.268	**Accepted**
H2=EfMon-->FFR	0.456	-0.012	Rejected
H3=AChange-->FFR	0.004	-0.294	**Accepted**
H4=DChange-->FFR	0.089	-0.145	Rejected
H5=CeoPic-->FFR	0.032	-0.198	**Accepted**
H6=ExPress*ACom-->FFR	0.300	0.058	Rejected
H7=EfMon*ACom-->FFR	0.489	-0.003	Rejected
H8=AChange*ACom-->FFR	0.411	0.025	Rejected
H9=DChange*ACom-->FFR	0.377	0.035	Rejected
H10=CeoPic*ACom-->FFR	0.043	0.184	**Accepted**

Discussion

The Effect of External Pressure on Indications of Fraudulent Financial Reporting

External pressure can affect the potential for fraudulent financial statements which was supported by the findings, confirming similar results from (Wolfe, David T., 2004). The results of the tests show a p-value of 0.006, which is less than α (0.05), therefore H1 is accepted. These results prove that external pressure which is proxied by return on asset (ROA) can affect the potential for fraudulent financial in state-owned enterprises (SOEs). ROA is a financial ratio that assesses a company's capability to produce net income (profit after tax) and indicates the return generated from its total assets. (Skousen et al., 2009) stated that ROA will show a significant difference between companies that commit fraud and those that do not. The ROA generated by companies that commit financial statement fraud tends to be higher than those that do not. The higher the pressure proxied by ROA, the higher the indication of financial statement fraud.

The Effect of Effective Monitoring on Indications of Fraudulent Financial Reporting

The effective monitoring variable is proxied by the ratio of the number of independent boards of commissioners (BDOUT). One factor that can lead to fraudulent financial reporting is ineffective supervision by the company's management in monitoring employees, providing opportunities to commit fraud. The results of the tests show a p-value of 0.456, which is greater than α (0.05), therefore H2 is rejected. These results prove that effective monitoring which is proxied by BDOUT does not have a significant impact on the potential for fraudulent financial in state-owned enterprises (SOEs). The results of this study support the research of (Haqq & Budiwitjaksono, 2019), which has not found evidence that ineffective monitoring can detect financial statement fraud. Additionally, the research of (Faidah & Suwarti, 2018) suggests that to provide better supervision of management performance, companies generally appoint independent commissioners.

The Effect of Change in Auditor on Indications of Fraudulent Financial Reporting

The Change in Auditor variable is proxied by auditor changes, measured using a dummy variable. A code of 1 indicates an auditor change, while a code of 0 indicates no auditor change. Rationalization is considered a crucial factor in the occurrence of fraud, as perpetrators often justify their actions through rational reasoning. Fraud perpetrators are more likely to believe their actions will go unnoticed if the company frequently changes auditors, increasing the likelihood of fraudulent activities. Auditor changes may also be carried out to minimize the chances of fraud detection by the previous auditor. The results of the tests show a p-value of 0.004, which is less than α (0.05), therefore H3 is accepted. These results prove that effect of change in Auditor firm which is proxied by change in Auditor firm (Achange) can affect fraudulent financial in state-owned enterprises (SOEs). The results of this study are supported by the research conducted by (Maryam, 2012), which states that auditor changes have a significant effect on fraudulent financial statements.

The Effect of Change in Director on Indications of Fraudulent Financial Reporting

According to (Wolfe, David T., 2004), changes in company directors can cause a stress period that increases the opportunity for fraudulent activities. Therefore, this study proxies change in director through director changes, measured using a dummy variable. A code of 1 indicates a director change, while a code of 0 indicates no director change. The results of the tests show a p-value of 0.089, which is greater than α (0.05), therefore H4 is rejected. The findings of this study indicate that changes in company directors demonstrated a significant impact on detecting or preventing indications of fraudulent financial reporting in state-owned enterprises (SOEs). The transition of leadership, whether due to performance issues or the end of a director's term, does not necessarily alter the company's ability to identify or mitigate fraudulent practices. This suggests that the mere replacement of directors is insufficient to influence or reduce the occurrence of financial statement fraud within the organization. This study aligns with the research of (Ratnasari & Solikhah, 2019), which suggests that individuals commit fraud because they believe they possess the ability to conceal traces of financial statement fraud. If a change in directors does not comply with regulations, it may indicate potential fraud. However, the findings of this study contradict the research of Haqq and Budiwitjaksono (2020), which states that changes in directors are carried out to improve the company's performance; therefore, such changes cannot effectively detect financial statement fraud.

The Effect of CEO Picture on Indications of Fraudulent Financial Reporting

The CEO picture variable is proxied by the number of CEO picture presented in the company's annual report, which includes CEO profiles, display pictures, achievements, photographs, or other repeated information about the CEO's track record. According to (Yusroniyah, 2017), the frequency of CEO picture in the annual report reflects the CEO's level of arrogance. A high level of arrogance may increase the likelihood of fraudulent practices because the CEO might feel that internal controls do not apply to them due to their position or status within the company. This arrogance may drive the CEO to take various actions to maintain and protect their position. The results of the tests show a p-value of 0.032, which is less than α (0.05), therefore H5 is accepted. The findings of this study indicate that the number of CEO images in the annual report does have a significant impact on detecting or preventing indications of fraudulent financial reporting in state-owned enterprises (SOEs). This suggests that the frequency of CEO images is reliable indicator of arrogance or its influence on the likelihood of fraudulent financial statements. This study aligns with the research of (Siddiq et al., 2017). The frequent appearance of the CEO's pictures significantly influences financial statement fraud. A large number of CEO picture displayed in the company's annual report suggests that the company's success is attributed to the CEO's performance. This arrogance may drive the CEO to engage in fraudulent activities to maintain a positive image in the eyes of stakeholders.

Audit Committee Moderates the Influence of External Pressure on Fraudulent Financial Reporting Indications

The audit committee is responsible for supporting the board of commissioners in overseeing the business operations carried out by the company's management. According to agency theory, the audit committee's primary duty is to monitor management performance, particularly in the preparation of financial statements. In the process of producing high-quality financial reports, management often faces pressure from capital owners who expect positive financial outcomes. This pressure can motivate management to engage in fraudulent financial reporting. Despite the existence of an audit committee, this external oversight does not always mitigate the pressure or prevent management from committing financial fraud. The audit committee's role in supervising and ensuring compliance may be limited when financial performance expectations are high, increasing the risk of manipulation in financial reporting. The results of the tests show a p-value of 0.300, which is greater than α (0.05), therefore H6 is rejected. The presence of an audit committee has not been shown to reduce the impact of financial targets on indications of fraudulent financial reporting in SOEs. These findings align with the research conducted by (T Achmad & Pamungkas, 2019), which concluded that the audit committee does not moderate the influence of external pressure on the likelihood of financial statement fraud.

Audit Committee Moderates the Influence of Effective Monitoring on Fraudulent Financial Reporting Indications

The results of the tests show a p-value of 0.489, which is greater than α (0.05), therefore H7 is rejected. This indicates that the presence of an audit committee has not been shown to reduce the impact of ineffective monitoring on indications of fraudulent financial reporting in State-Owned Enterprises (SOEs). Despite the expectation that an audit committee would strengthen oversight and prevent fraudulent practices, the findings reveal that ineffective monitoring can still increase the risk of financial statement fraud, even with an audit committee in place.

These results align with the findings of (Mellado & Saona, 2020), which suggest that the audit committee does not weaken the influence of ineffective monitoring on the likelihood of financial statement fraud. The audit committee's oversight may be insufficient if the company's internal monitoring processes are weak or inadequately enforced, allowing opportunities for financial misstatements to go undetected. Effective supervision from an independent board of commissioners can reduce the opportunity for fraudulent activities in financial reporting. However, when monitoring is ineffective, it can create opportunities for management to engage in fraudulent financial reporting, regardless of the audit committee's involvement. The findings of this study are also supported by research conducted by (Lastanti, 2020), which indicate that the audit committee's role has not been able to mitigate indications of fraud in financial reporting.

Audit Committee Moderates the Influence of Change in Auditors on Fraudulent Financial Reporting Indications

The results of the tests show a p-value of 0.411, which is greater than α (0.05), meaning H9 is rejected. This indicates that the presence of an audit committee does not reduce the impact of auditor changes on indications of fraudulent financial reporting in State-Owned Enterprises (SOEs). According to the Regulation of the Minister of Finance of the Republic of Indonesia No. 17/PMK.01/2008 Article 3 Paragraph 1, companies must change their auditors after a maximum of six consecutive years for audit firms or three consecutive years for individual auditors (Jullani et al., 2020). This regulation applies regardless of whether an audit committee is present. Changes in auditors can affect audit quality—if the new auditor provides lower-quality audits, critical findings related to financial statement fraud may go undetected, leading to a fair audit opinion despite the presence of fraud.

This aligns with the fraud hexagon theory, which suggests that when management receives an unqualified audit opinion, they may perceive their fraudulent actions as acceptable or undetectable, encouraging continued fraudulent behavior. The findings are consistent with previous research by (Situngkir & Triyanto, 2020), which also concluded that the audit committee does not moderate the influence of auditor changes on the likelihood of financial statement fraud.

Audit Committee Moderates the Influence of Change in Directors on Fraudulent Financial Reporting Indications

The results of the tests show a p-value of 0.377, which is greater than α (0.05), meaning H8 is rejected. This indicates that the presence of an audit committee does not reduce the impact of changes in directors on indications of fraudulent financial reporting in State-Owned Enterprises (SOEs). Changes in company directors are a common occurrence, often aimed at improving managerial competence and enhancing organizational performance. However, according to agency theory, each director may pursue personal interests that conflict with the company's objectives. Management, acting as agents, is often motivated to achieve performance targets set by stakeholders (principals) to receive bonuses, which can increase the likelihood of financial statement fraud. Director changes may also occur due to the expiration of a director's term or internal restructuring (reshuffle). Although the audit committee is responsible for overseeing company operations and providing recommendations to the board of commissioners, it lacks the authority to influence or prevent director changes driven by performance issues. This limited authority prevents the audit committee from effectively mitigating conflicts of interest that could lead to fraudulent financial reporting. The findings of this study align with previous research by (Jullani et al., 2020; Nanda et al., 2019; Sari, Kiswanto, et al., 2020; Sasongko & Wijayantika, 2019; Situngkir & Triyanto, 2020), which also concluded that the audit committee does not moderate the effect of director changes on fraudulent financial reporting.

Audit Committee Moderates the Influence Ceo picture on Fraudulent Financial Reporting Indications

The results of the tests show a p-value of 0.043, which is less than α (0.05), meaning H10 is accepted. This indicates that the presence of an audit committee does reduce the impact of CEO arrogance on indications of fraudulent financial reporting in State-Owned Enterprises (SOEs). CEO arrogance refers to the excessive confidence and self-importance demonstrated by a company's top executive, which can manifest through a dominant leadership style and a strong desire to showcase their influence over the company's operations. This attitude can create an environment where decisions are made unilaterally, reducing the effectiveness of checks and balances within the organization. Despite the audit committee's responsibility to supervise and review financial reporting processes and audit findings from both internal and external sources, their ability to detect or prevent the effects of CEO arrogance remains limited.

This research is supported by the studies of (Tarmizi Achmad & Pamungkas, 2018; Utomo et al., 2018; Vivianita & Indudewi, 2019), which state that the audit committee weakens the influence of arrogance in increasing the likelihood of financial statement fraud. According to Agency Theory, the CEO, as part of management (the agent), is often pressured by stakeholders (the principal) to improve the company's performance. If the CEO successfully enhances the company's performance, it serves as evidence of their capabilities. This pressure can lead to selfish and arrogant behavior, pushing the CEO to do whatever it takes including committing financial statement fraud to maintain their image and ensure stakeholder trust. However, regardless of the level of arrogance displayed by the CEO, the audit committee performs its duties and responsibilities to oversee the company's financial statements. This oversight helps reduce the positive impact of CEO arrogance on financial statement fraud

5. CONCLUSION & SUGGESTION

Conclusions

This study concludes that several key factors significantly influence fraudulent financial reporting. First, external pressure is found to have a significant impact, highlighting the role of external factors in shaping corporate financial practices. Second, changes in auditors play a crucial role in fraudulent financial reporting, as such changes may either facilitate or prevent fraudulent activities depending on the circumstances. Additionally, CEO Picture, particularly as a proxy for arrogance, is a significant factor, indicating that leadership behavior can greatly influence the likelihood of fraudulent actions within a company. Lastly, corporate governance, specifically the audit committee, is identified as a moderating factor in the relationship between CEO picture and the detection of fraudulent financial reporting, emphasizing the importance of strong governance structures in mitigating fraud risks.

Suggestions

Based on these findings, several recommendations can be made. First, companies should strengthen corporate governance, particularly by enhancing the role of the audit committee, to improve the detection and prevention of fraudulent financial reporting. Establishing robust internal controls and oversight mechanisms will help reduce fraud risks. Second, implementing regular auditor rotations is advisable to reduce opportunities for fraudulent behavior and to ensure the integrity of financial reporting. Third, given the influence of CEO picture on fraudulent financial reporting, companies should invest in leadership development programs to ensure that executives uphold ethical standards and promote transparency. Additionally, companies must be proactive in managing external pressures, adopting better risk management strategies to ensure financial decisions are made ethically. Finally, future research could investigate other moderating variables, such as cultural or industry-specific factors, to further enhance the understanding of fraudulent financial reporting.

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