
How Does Corporate Governance Influence Fraud Practices?

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Abstract

The distinction between wealth and its owner raises the issue of agency. Financial statement fraud is one form of the agency's problem. It has been demonstrated that financial statement fraud has a negative impact on firms and the economy. According to previous research, excellent corporate governance can help prevent financial statement fraud. This study tries to demonstrate that company governance influences financial statement fraud. Financial statement fraud is measured using the Dechow Fscore, a predictive model for the occurrence of fraud. The ASEAN Corporate Governance Scorecard (ACGS) is a tool for evaluating corporate governance (ACGS). The ACGS is a tool for monitoring the implementation of corporate governance in ASEAN nations. This study focuses on non-financial companies listed on the Indonesia Stock Exchange in 2018. According to the findings of this study, corporate governance as judged by ACGS has a considerable negative impact on the risk that nonfinancial organizations will conduct financial statement fraud.

Keywords: governance; fraud, corporate governance scorecard

1. Introduction

One of the principles in financial management is the separation of interests between entities and owners, so that the management and owners of the company are separate entities. This can lead to agency problems. This problem arises because of asymmetric information between the principal and the agent. The granting of authority by the principal to the agent gives rise to 2 types of manager behavior, namely imperfect behavior where managers are oriented to their own interests. Conversely, managers can behave in a perfect manner that acts in the interests of the principal. Managers as rational human beings will have a tendency to behave as imperfect agents who will be more concerned with personal welfare than the welfare of shareholders. The agent's behavior will potentially lead to differences in interests with the principal (Easterbrook, 1984). One form of agency problem is fraudulent financial reporting (Salno & Baridwan, 2000). Financial statement fraud arises because of a conflict of interest from management to maximize personal wealth. Financial statement fraud has occurred in daily business practices and has a broad impact. Based on Wiggins & Metrick (2015), financial statement fraud committed by Lehman Brothers Holdings Inc. by covering debts of US\$50 billion which caused the world to face an economic crisis in 2007 to 2010. The fraud committed by Lehman Brothers Holdings Inc. also resulted in the Dow Jones Industrial Average falling 504 points (4.4%) and the Nasdaq Composite Index falling 3.6%, which was the biggest drop since the 9/11 terror incident. In

Indonesia, PT Bank Bukopin Tbk made a restatement of the 2015-2017 financial statements (CNBC Indonesia, 2018). The restatement was carried out to correct an error in recognizing revenue from credit cards (Kontan.co.id, 2018) which resulted in a decrease in income from IDR 1.06 trillion to IDR 317.88 billion. Thus, strategic steps are needed so that the agency problem in the form of fraudulent financial statements can be minimized. One way that can be done to minimize agency problems is to implement good corporate governance (Siallagan & Machfoedz, 2006). Corporate governance can be interpreted as public oversight and protection of investors through political mechanisms and legal structures (Forti, Yen-Tsang, & Peixoto, 2011). The Enron case in 2001 has shown the magnitude of the impact caused by fraudulent financial statements. In 2019, there was financial statement fraud at PT. Garuda Indonesia (GIAA). The GIAA case was revealed when the commissioners refused to approve the 2018 financial statements due to an error in revenue recognition.

In its 2018 annual report, GIAA's management explicitly states that it has implemented corporate governance principles. GIAA has also conducted an assessment of the implementation of corporate governance through the Collaboration with Multi Utama Indojasa Consulting to conduct an assessment of the implementation of corporate governance. The results of the assessment resulted in a score of 92.764 out of a maximum score of 100 with the title "very good". Aspects tested in the assessment include commitment to the implementation of sustainable governance, shareholders and GMS/capital owners, board of commissioners/supervisory board, directors, information disclosure and transparency, and other aspects.

The GIAA case is contradictory to the research by Beasley et. al. (2000) and Persons (2005), where companies that commit financial statement fraud have a tendency not to implement good corporate governance. The financial statement fraud also raises the question whether corporate governance has an effect on financial statement fraud.

Uzun, Szewczyk, & Varma (2004) conducted a study that aimed to determine the effect of corporate governance on fraudulent financial reporting. This study measures corporate governance using the composition of the board, audit committee, remuneration committee, and nomination committee. Uzun, Szewczyk, & Varma (2004) concluded that the composition and structure of the board of directors influences the occurrence of fraud. Akyol (2020) conducted a literature study which showed that most of the research concluded that corporate governance has an effect on fraudulent financial reporting. Furthermore, Uzun, Szewczyk, & Varma (2004) reported a negative relationship between the ratio of external boards of directors and the occurrence of fraud. This means that the fewer external boards of directors, the higher the level of fraud. Chidambaran, Keida, & Prabhala (2010) further shows that an independent board of directors is negatively related to the occurrence of fraud.

These studies seek to determine the effect of each of these corporate governance mechanisms on fraudulent financial reporting. The development of knowledge about corporate governance increases the complexity in evaluating the implementation of corporate governance in a company (Strenger, 2004). This complexity must be simplified so that corporate governance can be evaluated more easily. Measurement of the implementation of corporate governance using the

scorecard has been accepted and carried out internationally. The scorecard can make it easier for analysts, investors and companies to implement and evaluate various corporate governance scenarios. The scorecard can also address the increasing complexity of corporate governance issues (Strenger, 2004). An increase in the number of observed corporate governance items will increasingly reflect the corporate governance practices of the company. Based on this idea, this study measures corporate governance using the ASEAN corporate governance scorecard (ACGS).

The ASEAN Capital Market Forum (ACMF) introduced ACGS in 2011. ACGS is a scorecard to measure the implementation of corporate governance in companies in ASEAN. ACGS was formed based on OECD corporate governance principles and corporate governance practices that have been recognized internationally. ACGS uses 2 levels of corporate governance implementation measurement. ACGS level 1 adopts the principles of corporate governance that have been developed by the OECD in measuring the implementation of corporate governance. These principles are then elaborated by ACGS level 1 in 146 questions to measure the implementation of the company's corporate governance. ACGS Level 1 uses 33 questions about bonuses and penalties to determine the level of corporate governance of a company (Asian Development Bank, 2017). The value of ACGS is a combination of the application of OECD corporate governance principles.

In this study, corporate governance is measured using ACGS level 1. ACGS level 1 shows the main scorecard items while ACGS level 2 is a bonus and penalty item which not all companies include this information in their annual reports. The use of ACGS level 1 is expected to provide an overview of the suitability of corporate governance implementation in non-financial companies listed on the Indonesia Stock Exchange with OECD corporate governance principles. The companies studied in this study are non-financial companies because companies in the financial services sector have a different financial report structure than other companies. The measurement was carried out using 146 question items at ACGS level 1 so that it is expected to be able to better describe corporate governance practices.

2. Method

Earnings management is one of the variables that can be used to assess whether financial statement fraud has occurred (Spathis, 2002). Financial statement fraud often begins with misstatement or earnings management of financial statements that are immaterial and ends up becoming massive fraud and producing materially misleading annual financial reports (Rezaee, 2002).

The Fscore model introduced by Dechow et al. (2011). This model is a predictor for assessing the tendency of fraud with the result in the form of an Fscore value indicating aggressive accounting and the possibility of fraudulent financial statements (Beatty, Liao, & Yu, 2013). Dechow et al. (2011) followed a similar method to Beneish (1999) in constructing a model to forecast companies that have material misstatements. Using a sample of 61 Accounting and Auditing Enforcement Releases (AAERs) issued by the SEC between 1982 and 2005, the Fscore model is believed to be more accurate than the Beneish model (1999) which is based only on AAERs issued between 1982 and 1992.

Research by Aghghaleh, Mohamed, & Rahmat (2016) also confirms that the Beneish Mscore and Dechow Fscore can both be used to estimate the occurrence of fraud in financial statements. Beneish Mscore and Dechow Fscore are able to predict fraud in financial statements with an accuracy of above 60%. However, the percentage of truth of the Dechow Fscore model is 73.17% and is more accurate than the Beneish Mscore which only gets a percentage of truth of 69.51%. Skousen & Twedt (2009) and Sukrisnadi (2010) also explain the function of the Fscore for the benefit of investors, especially in assessing the risk of fraud in financial reports.

Research by Dechow et al. (2011) used 28 variables grouped into 5 types of information, then tested their ability to distinguish between companies proven to have committed fraud in court and companies that were not proven to have committed fraud. The variables included are accrual quality, performance, non-financial measures, off-balance sheet activities, and market-based measures.

This study adopted the research of Dechow et al. (2011) for the measurement of fraud variables which are referred to as the Fscores model. Fscores are calculated using the following formula:

$$\text{Predicted value} = -7.893 + 0.790 * \text{RSST} + 2.518 * \Delta \text{REC} + 1.191 * \Delta \text{INV} + 1.979 * \text{SOFTASSETS} + 0.171 * \Delta \text{CASHSALES} - 0.932 * \Delta \text{ROA} + 1.029 * \text{ISSUE}$$

Information:

$$\text{RSST} = (\Delta \text{WC} + \Delta \text{NCO} + \Delta \text{FIN}) / \text{Average Total Assets}$$

$$\text{WC} = (\text{Current Assets} - \text{Cash and Short-term Investments}) - (\text{Current Liabilities} - \text{Debt in Current Liabilities})$$

$$\text{NCO} = (\text{Total Assets} - \text{Current Assets} - \text{Investments and Advances} - (\text{Total Liabilities} - \text{Current Liabilities} - \text{Long-term Debt}))$$

$$\text{FIN} = (\text{Short-term Investments} + \text{Long-term Investments}) - (\text{Long-term Debt} + \text{Debt in Current Liabilities} + \text{Preferred Stock})$$

$$\Delta \text{REC} = \Delta \text{Accounts Receivables} / \text{Average Total Assets}$$

$$\text{INV} = \Delta \text{Inventory} / \text{Average Total Assets}$$

$$\text{SOFTASSETS} = (\text{Total assets} - \text{PPE} - \text{Cash and cash equivalents}) / \text{Total Assets}$$

$$\Delta \text{CASHSALES} = \text{Percentage change in cash sales} (\text{Sales} - \Delta \text{Accounts Receivables})$$

$$\Delta \text{ROA} = (\text{Earningst} / \text{Total assetst}) - (\text{Earningst-1} / \text{Total assetst-1})$$

$$\text{ISSUE} = 1 \text{ if the company issues stock, and } 0 \text{ otherwise.}$$

The data for calculating the predicted value is obtained from the company's financial statements. The predicted value is then converted to a probability with the following formula:

$$\text{Probability} = e^{(\text{Nilai Prediksi})} / e^{(1 + \text{Nilai Prediksi})}$$

The value of e is the basis of the natural logarithm or commonly called the Euler number with a value of $e = 2.718$. The probability value is then divided by the unconditional probability of misstatement of 0.0037 to get the Fscore. The probability of unconditional misstatement is the number of firms that are misstated divided by the total number of firms in the Dechow et al. sample. (2011). The greater the Fscore value indicates the greater the tendency of companies to commit financial statement fraud (Dechow et al., 2011).

Beasley (1996) empirically tested the prediction that the inclusion of a proportion of independent commissioners significantly reduced the likelihood of fraudulent financial reporting. However, the existence of an audit committee does not affect the possibility of financial statement fraud. This study also states that the increase in share ownership of independent directors in the company and the tenure of independent directors reduces the likelihood of financial statement fraud. Dechow, Sloan, & Sweeney (1996) I want to return to the first point I made - Dechow et al. have a very interesting sample and, with the financing and governance-structure variables, they have focused our attention on important variables related to earnings manipulation. Dechow et al. readers caution that the results for their sample firms, which undertook extreme earnings manipulation, may not generalize to firms managing earnings within the bounds of GAAP. Indeed, it may be the case that the firms in their sample turned to extreme earnings manipulation (in many cases, manipulation characterized as fraud investigates the relationship between earnings manipulation and weaknesses in the internal corporate governance structure of companies that commit fraud. The sample of this study is 92 companies that commit fraud based on SEC AAER between 1982 and 1992. The conclusion of this study shows that the motivation to manipulate earnings is to raise cheap funding. This study also concludes that companies that manipulate income have a tendency to have board members who are dominated by management, have CEO who simultaneously serves as chairman of the board of commissioners, has a CEO who is also the founder of the company, does not have an audit committee, and does not have outside block holders.

Research Beasley et al. (2000) used data from 300 companies that were investigated by the SEC for fraudulent financial statements from 1987 to 1997. The first objective of this research is to provide deeper insights into financial statement fraud techniques in the technology, healthcare, and financial services industries. to illustrate the role of industry traits in fraud. The second objective is to compare the corporate governance mechanisms of companies that commit fraud with benchmarks of companies that do not commit fraud. Results from Beasley et al. (2000) confirmed that the independence of the audit committee and independent board members has an effect on financial statement fraud. Beasley et al. (2000) also concluded that the number of audit committee meetings and the existence of internal audit are the differences between fraud and non-fraud companies.

Uzun, Szewczyk, & Varma (2004) examined the effect of corporate governance implementation and the characteristics of board members on fraud that occurred in companies in the United States. This study uses fraud data sourced from the Wall Street Journal Index 1978-2001 and finds that board composition and audit committee structure are significantly correlated with fraud. Independent commissioners, independent audit committees, and independent remuneration committees reduce the possibility of fraud, but companies with remuneration committees have a tendency to increase fraud.

Research Chen et al. (2006) carried out by taking a sample of 169 companies in China that were legally prosecuted by CSRC during the period 1999-2003. This study aims to determine the effect of ownership structure and corporate governance on fraud. The aspects of corporate governance examined are the characteristics of the board of commissioners, ownership structure and audit. The results of this study found that the characteristics of the board of commissioners are one of the factors that influence fraud. However, ownership structure has no significant effect on fraud. The proportion of commissioners who come from outside the company is one way to reduce fraud because it can monitor management (including executive directors) so as to help prevent fraud. This study also found the fact that companies that commit fraud hold a larger number of board of commissioners meetings. This shows that the directors actually believe that some of the actions or decisions being discussed are legal and therefore, there is more debate between the board of commissioners and management requiring more meetings.

Research by Veronica & Bachtiar (2005) used a sample of 160 companies listed on the IDX. This study aims to determine the relationship between corporate governance mechanisms in the form of a) the existence of an independent commissioner; b) size of the board of commissioners; c) the existence of an audit committee; d) large number of shareholders (blockholders); e) the proportion of share ownership by institutions; and f) audit quality of the occurrence of financial statement fraud which is calculated using the dummy variable restatement occurrence. This study shows that the corporate governance mechanisms in the form of the existence of independent commissioners, the proportion of institutional ownership, and audit quality significantly reduce the number of restatements. However, the 3 corporate governance mechanisms in the form of the size of the board of commissioners, blockholders, and the existence of an audit committee have no significant effect on the occurrence of restatements.

The independent variable of this study is corporate governance as measured using ACGS. The independent variables are all indicators in the ACGS so that they are more comprehensive than the variables used in previous studies. The dependent variable used is financial statement fraud as measured by the Dechow Fscore model. The control variable used refers to Wahyuningtias' research (2017), so it is hoped that the research model established can describe the factors forming fraudulent financial statements well.

Wahyuningtias (2017) concluded that diamond fraud simultaneously has a significant influence on the occurrence of fraudulent financial statements. However, if tested partially, only pressure, opportunity and rationalization factors have a significant effect on fraudulent financial reporting. The only significant pressure factor is the ratio of changes in assets which in this study is calculated through changes in working capital. Working capital is one of the elements forming

the Dechow Fscore, so this study does not use the ratio of changes in assets in the control variable. The opportunity factor has no effect on the whole; only the ratio of the independent audit committee has a significant effect on fraudulent financial statements. For the rationalization factor, the influential variable is the dummy variable as a measurement of the public accountant's opinion.

If previous studies focused on the corporate governance perspective in terms of the number of commissioners, the percentage of independent board of directors, managerial ownership (Uzun, Szewczyk, & Varma, 2004; Veronica & Bachtiar 2005; Ismiyanti & Prastichia, 2015), internal control (Gunawan, 2019), this study seeks to present a more comprehensive measurement of corporate governance through the ACGS value. This study differs from previous studies in terms of the size of corporate governance used. There are only a few studies using the ACGS score as a measure of corporate governance. The ACGS score is formed by 5 areas to measure the implementation of corporate governance, namely the area of shareholder rights, fair treatment of shareholders, the role of stakeholders, disclosure and transparency, and the area of responsibility of the board (commissioners and directors).

ACMF introduced ACGS as a corporate governance assessment of all capital market companies registered in ASEAN countries. By using 146 ACGS questions, it is expected to be able to capture corporate governance practices in a more comprehensive manner compared to previous research which only used several proxies for measuring corporate governance. For this reason, the purpose of this study is to find out more about the effect of corporate governance which is calculated as a whole by ACGS on fraudulent financial statements. To answer these questions, the research hypothesis is as follows:

H₁: Corporate governance as measured by ACGS has a significant effect on fraudulent financial reporting.

The population in this study are non-financial companies listed on the IDX in the 2018 period. The 2018 period was chosen because the ACGS compiled by the ACMF was only published in May 2017. To answer the research hypothesis, research data was tested. The research data used is the population after deducting outliers, namely companies whose annual reports cannot be accessed and companies that do not have complete data to fulfill the research variables. The data used are data on the implementation of corporate governance in annual reports and data on total assets, plant property equipment, long and short term investments, cash and cash equivalents, current liabilities, receivables, inventory, sales, earnings, and issuance of shares in the financial statements.

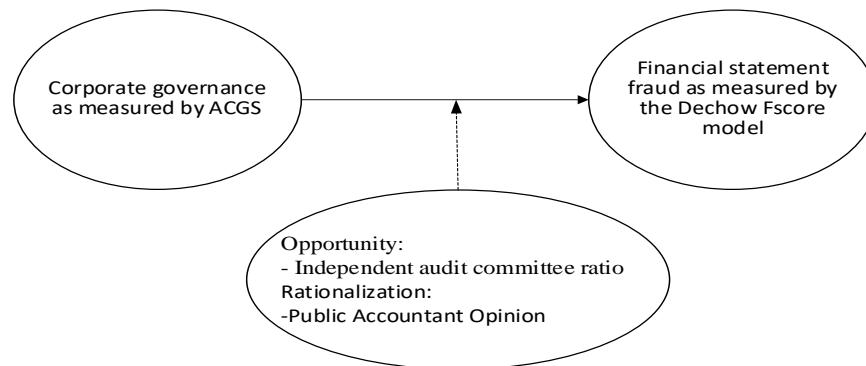


Figure 1. Research Concept Framework

The independent variable used in this research is corporate governance. Corporate governance is measured using the ASEAN corporate governance scorecard (ACGS). ACMF introduced ACGS in 2011. ACGS is aimed at increasing the standards of corporate governance implementation in companies in ASEAN, increasing the visibility of international investors towards public companies in ASEAN that have implemented good corporate governance, and promoting ASEAN as an asset class. Until 2017 ACGS has been used by corporate governance rating agencies in Singapore, Malaysia, the Philippines, Thailand, Vietnam and Indonesia. This study uses ACGS level 1 which is described in 146 question items to measure the implementation of a company's corporate governance. Financial statement fraud is used as the dependent variable in this study. Dechow Fscore is used as a proxy for fraudulent financial statements. The Fscore model is claimed to be more comprehensive because it is based on examination of 61 Accounting and Auditing Enforcement Releases (AAERs) issued by the SEC between 1982 and 2005, whereas Beneish's (1999) model is based only on AAERs issued between 1982 and 1992.

Research by Aghghaleh, Mohamed, & Rahmat (2016) shows that the Beneish Mscore and Dechow Fscore can both be used to predict fraud in financial statements. Both of these models can predict fraud in financial statements with an accuracy of above 60%. But the percentage of truth of the Dechow Fscore model is 73.17%, more accurate than the Beneish Mscore which only gets a truth percentage of 69.51%. Skousen & Twedt (2009) and Sukrisnadi (2010) also explain that investors can use the Fscore, especially in determining the risk of fraudulent financial reporting. Testing the influence of r variables is done with the following formula:

Information:

$$\text{LnFSCORE1} = \alpha_1 + \beta_1 \text{ACGS} + \beta_2 \text{KOMIN} + \beta_3 \text{AUDITOR} + e_1$$

LnFSCORE1 = Natural Logarithm of Fraudulent Financial Statements

α_1 = Equation Constants

- β_1 = ACGS coefficient
- β_2 = Independent Audit Committee Proportion Coefficient
- β_3 = Public Accountant Opinion Coefficient
- ACGS = ACGS variable
- KOMIN = Independent Audit Committee Proportion Control Variable
- AUDITOR = Public Accountant Opinion Control Variables
- e_1 = Residual Errors

Table 1. ACGS Value Weighting

Level 1	Number of Questions	of Weight	Maximum Value
Part A Right of Shareholder	21	10	10
Part B Equitable Treatment of Shareholders	15	15	15
Part C Role of Stakeholders	13	10	10
Part D Disclosure and Transparency	32	25	25
Part E Responsibilities of the Board	65	40	40
Total	146	100	100

Source: processed from the Asian Development Bank (2022) and ACGS v.2.0

3. Results and Discussion

This study uses 370 company data in 2018. The data for the Dechow Fscore variable is taken from financial reports, while the ACGS variable, the proportion of independent audit committees, and public accountant opinion comes from the 2018 annual report. The highest ACGS score is obtained by ABMM company with a value of 79.23 . This value indicates that the ABMM company has implemented ACGS by 79.23%. The lowest score was obtained by a BAPA company with an ACGS score of 28.34, which indicates that this company has only implemented 28.34% of corporate governance elements. A higher ACGS score indicates a better implementation of corporate governance.

Corporate Governance

Table 2 shows the average value of ACGS is 53.95 which indicates that the implementation of corporate governance has met 53.95% of the requirements specified in ACGS level 1, with 171 companies implementing ACGS above the average. The standard deviation of 7.01 indicates that the implementation of corporate governance is relatively evenly distributed.

Financial Statement Fraud (Dechow Fscore)

The highest Dechow Fscores is in the DKFT company with a value of 21.41. This value indicates that DKFT has a higher tendency to commit financial statement fraud. On the other hand, ANJT company obtained the lowest Dechow Fscores with a value close to 0 which indicates that this

company has a very low tendency to commit financial statement fraud. Based on Table 3, it can be seen that Dechow Fscores have an average of 0.669 with a standard deviation of 1.473. Based on research by Dechow et al. (2011) with an average value of 0.669 (below 1.0) indicates that on average the sample companies do not commit financial statement fraud. The standard deviation of research data shows that the probability of non-financial companies to commit financial statement fraud varies widely.

Based on the results of the regression analysis in Table 4, the regression model equation is obtained as follows:

$$\text{LnFSCORE} = -0,894 - 0,128\text{ACGS} + 0,025\text{KOMIN} + 0.115\text{AUDITOR}$$

From the regression equation, it can be seen that the ACGS variable has a negative coefficient. The addition of the independent variable will cause the dependent variable to decrease. The ACGS coefficient of -0.128 indicates that for non-financial companies, the addition of the ACGS score will result in a reduced FSCORE of 0.128%.

Control variables in the form of the proportion of independent audit committees and public accountant opinions have a positive influence on fraudulent financial reporting. The addition of 1 variable proportion of independent audit committees in non-financial companies will increase the tendency for financial statement fraud to occur by 0.025%. The addition of 1 public accountant opinion variable in non-financial companies, which shows a better audit opinion, will also increase the tendency for financial statement fraud to occur by 0.115%.

Tabel 2. Statistik Deskriptif ACGS

Variabel	Rata-rata	Maksimum	Minimal	Standar Deviasi
ACGS	53.95	79.23	28.34	7.01
Rights of Shareholders	8.22	16.00	1.00	2.33
Equitable Treatment	of 2.29	8.00	0.00	1.13
Role of Stakeholders	10.56	13.00	1.00	2.32
Disclosure and Transparency	26.98	31.00	16.00	1.14
Responsibilities of the Board	37.96	57.00	19.00	6.73

Tabel 3. Analisis Deskriptif Dechow Fscore

Variabel	Rata-rata	Median	Maksimum	Minimal	Std. Dev.
Fscore	0.669	0.459	21.412	0.000	1.473
ΔRSST	0.049	0.030	1.144	-0.825	0.168
ΔREC	0.016	0.005	0.679	-0.323	0.068
ΔINV	0.024	0.005	0.549	-0.190	0.067
SOFTASSETS	0.590	0.603	1.000	0.028	0.245
ΔCASHSALES	1.208	1.119	25.609	-45.320	3.134
ΔROA	-0.012	-0.004	0.759	-1.329	0.122

Corporate governance variables, the proportion of independent audit committees, and opinions of public accountants can only describe 2.2% of the variation in fraudulent financial reporting of non-financial companies, while 97.8% is explained by other fraudulent financial reporting elements that are not discussed in this study. The small value of R2 is due to the various factors that form fraudulent financial statements. Cressey (1953) stated that fraud occurs due to 3 factors, namely opportunity, pressure, and rationalization. These three fraud forming factors are better known as the fraud triangle. Corporate governance according to Albrecht, Albrecht, & Albrecht (2004) seeks to reduce agency problems, one of which is fraudulent financial reporting by optimizing the function of the supervisory board to exercise control over management behavior. The supervisory board is tasked with preventing management behavior that takes advantage of opportunities to commit fraud (Albrecht et al., 2004). Based on how corporate governance works in overcoming the agency problem, a small R2 value is possible because corporate governance has an indirect influence on financial reporting fraud. Corporate governance must be able to reduce the opportunity factor from management to commit fraud first before it can reduce fraudulent financial statements.

Lou & Wang's research (2009) states that the factors that influence financial statement fraud are analyst forecast errors regarding company profits, debt ratios, director and commissioner share ratios, percentage of sales to related parties, frequency of financial statement restatements and number of auditor changes. . Research by Skousen, Smith, & Wright (2009) concluded that the factors that significantly influence fraudulent financial statements are changes in assets, estimates of financing needs, share ownership by insiders, the proportion of share ownership by management above 5%, the percentage of independent audit committees, as well as the existence of concurrent positions between the main director and the main commissioner. The variables forming financial statement fraud are very diverse, resulting in this study (which only uses corporate governance independent variables and the control variable ratio of independent audit committees and public accountants' opinions) is only able to explain 2.9% of the variation in the variable financial statement fraud.

To answer the research hypothesis H1 which states that "Corporate governance as measured by ACGS has a significant effect on financial statement fraud" a partial test was carried out between ACGS and FSCORE variables. Based on Table 4, corporate governance as measured using ACGS has a significant effect on reporting financial fraud ($p = 0.014$). Adding the ACGS score will reduce the tendency of fraudulent financial statements in non-financial companies by 0.128%. The results of this study are in line with the research of Chen et al. (2006) who concluded that corporate governance as measured by the characteristics of the board of commissioners has a significant effect on fraudulent financial reporting. This study also corroborates the results of Veronica & Bachtiar's research (2014) which states that corporate governance has an effect on fraudulent financial reporting. The results of this study are also supported by a comparison of ACGS and Dechow Fscore in the 5 companies with the highest and lowest ACGS scores as shown in Table 5 and Table 6 below.

Table 4. Multiple Linear Regression Test Results

Model B		Unstandardized		Standardized	t	Sig
		Coefficients	Beta			
		Std. Error				
1	(Constant)	-.894	.773		-1.157	.248
	ACGS	-.015	.006	-.128	-2.462	.014
	Komin	.300	.618	.025	.485	.628
	Auditor	.609	.272	.115	2.238	.026

Based on Table 5, it can be observed that the average company with a large ACGS score has a lower tendency to commit fraudulent financial statements. In Table 6, it can be observed that companies with a small ACGS score have a higher tendency to commit financial statement fraud. This shows that in non-financial companies, ACGS has a significant effect on fraudulent financial statements.

With the negative influence of corporate governance variables as measured using ACGS on fraudulent financial statements, it shows that stakeholders can use ACGS to predict the level of a company's tendency to commit fraud. The results of this study can also be used as a reference by the management of non-financial companies in implementing corporate governance to reduce the tendency for fraudulent financial reporting.

The ACGS and Dechow Fscore variable analysis can be applied to the case of PT Garuda Indonesia which was proven to have committed financial statement fraud in 2018. The GIAA Fscore is 0.56138 below the average Fscore for all companies and based on Dechow et al. (2011) are still in the classification of companies that have a low tendency to commit fraudulent financial statements. This is in contrast to GIAA's empirical conditions which have been proven to commit financial statement fraud. The inability of the Dechow Fscore to predict fraudulent financial statements at GIAA has been explained by Aghghaleh, Mohamed, & Rahmat (2016) who found that the Fscore model is only able to accurately project fraudulent financial statements as much as 73.17%, so there is a possibility of failure in predicting companies that should make fraudulent financial statements, and vice versa.

The ACGS score obtained by GIAA was 63.322 which is above the mean ACGS score for the study population. The good ACGS value is inversely proportional to empirical conditions which state that GIAA has been proven to have committed fraudulent financial statements. The results of the regression analysis stated that an increase in ACGS would reduce the tendency for fraudulent financial statements. With a good ACGS score, the tendency for fraudulent financial reporting at GIAA should be reduced. Thus, the difference in research results with empirical conditions in the field may be caused by the presence of 97.8% of other factors that also influence the emergence of fraudulent financial statements.

This study uses control variables in the form of the proportion of independent audit committees and public accountant opinions. The proportion of independent audit committees has no significant effect on fraudulent reports (p-value = 0.628). This result differs from the research by

Abbott, Park, & Parker (2000) & Owens-Jackson, Robinson, and Shelton (2009) which states that an increase in the proportion of independent audit committees has a negative effect on financial statement fraud. However, the results of this study are in line with the research of Xie (2003) and Nurliasari & Achmad (2020) which show that independent audit committees have no effect on the possibility of fraudulent financial reporting. These results indicate that the large number of independent audit committees does not guarantee a reduction in fraudulent financial reporting. The independent audit committee variable is measured by the number of audit committee members who act as independent commissioners divided by all members of the audit committee. The existence of an independent commissioner who joins the audit committee is an implementation of the Financial Services Authority Regulation Number 55/POJK.04/2015. Article 4 states that the audit committee is at least three people from independent commissioners and parties from outside the issuer or public company. This study shows that the average company has only one independent commissioner who serves as chairman of the audit committee, or one third of the total audit committee. Furthermore, on average there is only one member of the audit committee with an accounting education background. This condition means that only a third of the audit committee understands financial reports.

Table 5. Comparison of the highest ACGS and Dechow Fscore

Code	ACGS	Fscore
ABMM	79.22722	0.240039
EXCL	74.35703	0.243109
ACST	72.89286	0.775538
ADMG	71.02003	0.255004
LPPF	70.99336	0.283798
Average	73.6981	0.359498

Table 6. Comparison of the lowest ACGS and Dechow Fscore

Code	ACGS	Fscore
BIMA	40.11218	0.834193
TSPC	36.11584	0.306831
STTP	32.6329	0.352631
AIMS	30.55231	0.731413
BAPA	28.34249	0.757585
Average	33.55114	0.596531

The public accountant opinion variable has a significant effect on financial statement fraud (p-value = 0.026) with a value of 0.115% which indicates that a better audit opinion increases the tendency for financial statement fraud. These results are in contrast to Akbar's research (2017) which states that audit opinion has no effect on fraudulent financial statements. These conflicting results can be studied further in future research.

4. Conclusion

The results showed that the principles of corporate governance in ACGS, namely board responsibility, shareholder rights, fulfillment of stakeholder roles, fair treatment of shareholders, and disclosure and transparency have a positive effect on reducing the tendency of fraudulent financial reporting. Future studies can measure ACGS levels 1 and 2 obtained through direct observation at the company. Besides that, further research can include other variables forming fraudulent financial statements which are expected to better explain fraudulent financial statements. Subsequent research can also replace the measurement of the Dechow Fscore fraudulent financial statement variable with data on the occurrence of financial statement fraud originating from court proceedings to reduce the possibility of wrong predictions. This research can be used by investors, governments, and companies as an alternative to financial statement analysis to determine whether a company has a tendency to commit financial statement fraud, although it still needs to pay attention to other factors.

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