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The Influence of Corporate Governance and Company Performance on Fraudulent Financial Statements

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Abstract: This study investigates the factors associated with the likelihood of financial statement fraud, focusing particularly on corporate governance mechanisms and financial performance. Corporate governance is represented by the proportion of independent commissioners on the board and audit committee financial expertise, while financial performance is measured using firm size, leverage, and profitability. The likelihood of financial statement fraud is evaluated using the Beneish M-Score and converted into a binary variable, where a value of 1 indicates that a company is classified as a potential financial statement manipulator, whereas a value of 0 indicates that it is classified as a non-manipulator. The study uses data from banking companies listed on the Indonesia Stock Exchange (IDX) over the 2019–2023 period. The data are examined through binary logistic regression analysis. The findings reveal that the proportion of independent commissioners and audit committee financial expertise are not significantly associated with the likelihood of financial statement fraud. Conversely, firm size, leverage, and profitability exhibit statistically significant relationships with the likelihood of potential financial statement manipulation. These results suggest that auditors should give closer consideration to companies' financial conditions and reporting practices, as these aspects may serve as indicators warranting further examination when assessing the risk of financial statement manipulation.

Keywords: Fraudulent financial statement, size, leverage, profitability·

INTRODUCTION

Fraudulent financial reporting refers to practices involving the manipulation of a company's financial data with the intent to deceive stakeholders. Such actions are typically carried out to mislead interested parties—including investors, lenders, and regulators (Putri & Apriwenni, 2022)—and also threaten overall market confidence and stability (Kurniawati & Raharja, 2012). When facts regarding financial statements are manipulated or falsified, investors and other

stakeholders lose trust in the company concerned. Misstatements in financial statements erode the confidence of report users and can harm various stakeholders, such as lenders, suppliers, employees, customers, investors, the general public, and the government (Suhartono, 2020).

Fraudulent acts are committed by corporations with the aim of presenting financial performance in a manner desired by management for various purposes. Such fraud is intended to mislead external parties, such as creditors and investors A significant omission or misstatement brought about by a deliberate act to present financial information that departs from accepted accounting norms is known as financial statement fraud (Hajek & Henriques, 2017). Financial statement fraud has the potential to cause harm to various parties. Even though financial statement fraud makes up only 9% of all fraud cases, the ensuing financial losses are substantial, according to the Association of Certified Fraud Examiners (ACFE) in 2022.

This paper discusses the factors influencing fraudulent financial statements. Based on several prior studies, factors affecting fraudulent financial statements include the audit committee and the independent board of commissioners (Soesanto, 2024; Dzaki & Suryani, 2020; Nadia et al., 2023; Tiapandewi et al., 2020; Arnetha & Herawati, 2022). This article also investigates the impact of firm scale on fraudulent financial statements. Research by Riskiani and Yanto (2020) state that firm size is found to exert a statistically significant and positive influence on financial reporting fraud. Apart from the three aforementioned factors, financial performance may also contribute to the occurrence of financial statement fraud. This study assesses financial performance through Return on Assets (ROA) and Debt-to-Equity Ratio (DER). Previous research conducted by R. I. Sari (2024) demonstrated that profitability, measured by Return on Assets (ROA), has a significant positive association with the likelihood of financial statement fraud. Furthermore, the selection of ROA as a measurement proxy is supported by Natalie (2024), whose findings indicated that leverage has no significant effect on the likelihood of financial statement fraud. Natalie (2024) also suggested ROA as an alternative proxy for assessing financial performance. Anisa et al. (2024) provide evidence that the presence of independent commissioners and leverage are significant factors associated with financial statement fraud (see also Rumapea et al., 2022; Dzaki & Suryani, 2020). Financial statement fraud remains a compelling subject for ongoing research, with various studies identifying numerous factors that influence fraudulent financial reporting. These factors continue to evolve alongside the development of fraud methods themselves. This article explains the causes of fraud based on observable conditions within financial statements—an important step in ensuring that publicly released financial statements are free from fraud.

According to Jensen & Meckling (1976), an agency relationship is defined by agency theory as a contract wherein a principal hires an agent to carry out tasks and gives the agent the power to make choices on the principal's behalf. Agency problems arise because it is impossible to draft a perfect contract covering every potential action an agent might take—actions that affect both the agent's own welfare and that of the principal (Brennan, 1995). Agency conflicts can emerge between the agent and the owner due to the owner's expectation that the agent will manage the company effectively to achieve corporate goals. According to Julia & Yunita (2022), the pressure agents face from these expectations is capable of increasing the probability of financial statement manipulation stemming from information asymmetry—a phenomenon further explained by Yadiati & Rezwiandhari (2023)—within a system that provides guidelines and principles for aligning divergent interests, particularly those of managers and shareholders.

Fraudulent financial statement often arises from information asymmetry, which enables agents to present misleading information. This study analyzes corporate governance, firm size, and financial performance as factors that can either mitigate or exacerbate the risk of agency conflicts leading to financial statement manipulation. Fraud refers to a deliberate act of deception or misrepresentation carried out to obtain personal benefits, often resulting in financial or other losses for stakeholders (P. N. Sari & Husadha, 2020). Similarly, the Association of Certified

Fraud Examiners (ACFE, 2022) describes fraud as the intentional exploitation of one's professional position or authority to achieve personal gain by misappropriating an organization's assets or resources. Furthermore, the ACFE characterizes fraud as an intentional, unlawful act—such as manipulation or the provision of false reports—committed by individuals either within or outside an organization to secure personal or group profits, directly or indirectly causing harm to other parties (Mardani et al., 2020; Purnaningsih et al., 2022).

Financial statement fraud refers to the deliberate concealment, misrepresentation, or omission of financial information with the intention of misleading users of financial reports. Such actions are taken to secure undue benefits at the expense of the users (Dzaki & Suryani, 2020). Financial statement fraud refers to intentional manipulation of financial reports by management to create misleading information for users. Although financial reports are expected to present a faithful representation of a company's financial position and performance, some reports do not accurately portray its actual financial circumstances (Rahman et al., 2020). In Indonesia, fraud also arises from the preparation of financial statements that violate or fail to adhere to generally accepted accounting principles (Alvionika & Meiranto, 2021). Muawanah and Sari (2023) describe financial statement fraud as a fraudulent practice characterized by the intentional misrepresentation of financial information to deceive report users. Yosephine & Marheni (2023) define financial statement fraud as the conscious disclosure of incorrect information for the purpose of deception. Companies often commit financial statement fraud due to pressure from stakeholders—specifically investors—to achieve high levels of profitability (Nugroho et al., 2018; Muawanah & Sari, 2023; Yosephine & Marheni, 2023).

The independent board of commissioners functions as an oversight body responsible for monitoring and evaluating the performance of a company's management. Because independent commissioners are free from internal corporate pressure, they are able to carry out their duties neutrally and objectively (Angelina & Chariri, 2022). Increasing the number of independent commissioners to achieve a balanced proportion relative to internal commissioners enhances the supervisory function, thereby ensuring stricter oversight. Effective monitoring by independent commissioners promotes greater managerial accountability and reduces opportunities for financial statement manipulation. Accordingly, this study examines whether the presence of independent commissioners negatively influences the likelihood of financial statement fraud.

Previous studies have highlighted the importance of audit committee independence in preventing financial reporting fraud. Dewi (2019) found that an independent audit committee contributes to lowering the risk of financial statement fraud through objective evaluation, independent judgment, and effective monitoring of managerial activities. Similarly, Nurliasari and Achmad (2020) demonstrated that the financial expertise of audit committee members is negatively associated with financial statement fraud. Their findings suggest that greater representation of members with accounting and financial competencies strengthens the committee's ability to detect and prevent fraudulent practices. Furthermore, Syamsudin et al. (2020) reported that a larger proportion of independent audit committee members is associated with fewer opportunities for financial statement manipulation. Taken together, these findings suggest that audit committee independence and competence play an important role in strengthening corporate oversight and mitigating fraudulent financial reporting. Accordingly, this study examines the effect of the audit committee on financial statement fraud.

Previous studies have reported mixed findings regarding the relationship between firm size and financial statement fraud. Dewi (2019) argued that larger organizations tend to face greater agency-related costs, which may create challenges in maintaining effective internal control and monitoring mechanisms. In line with this perspective, Riskiani and Yanto (2020) identified a significant positive relationship between firm size and financial reporting fraud, suggesting that larger asset holdings may be associated with a higher risk of fraudulent practices. However, different results were reported by Teguh and Kristanto (2020), who found

that larger firms tend to have a lower likelihood of financial reporting fraud. Similarly, Morisca (2022) identified a significant positive association between firm size and financial statement fraud. These contrasting findings indicate that the relationship between firm size and fraudulent financial reporting remains inconclusive and warrants further investigation. Therefore, this study seeks to examine whether firm size influences financial statement fraud.

According to agency theory, the use of debt financing may create potential conflicts of interest between management, shareholders, and creditors. Creditors typically avoid companies with high leverage, as such firms possess high debt levels relative to their equity. High leverage makes it difficult for a company to secure funding from creditors. As a result, companies may become more inclined to manipulate financial information to maintain their attractiveness to prospective investors and creditors, thereby increasing the risk of financial statement fraud (Widhayanti & Utomo, 2020).

Profitability represents a company's ability to generate earnings over a given period and serves as an indicator of its financial performance. In this study, profitability is measured using Return on Assets (ROA). Research by R. I. Sari (2024) found that the profitability variable (ROA) influences the potential for financial statement fraud; specifically, higher profitability correlates with a higher potential for such fraud. Similarly, a study by Anindita (2021) indicates that profitability affects financial reporting fraud. According to Hartono (2020), profitability has a significant positive effect on financial reporting fraud. Therefore, the research question addressed here is whether leverage and profitability influence fraudulent financial statements.

METHODS

This research adopts a quantitative approach grounded in the positivist paradigm, which emphasizes the use of numerical data and statistical procedures to examine research phenomena and draw conclusions. The analysis involves quantifying the dependent variable, namely financial statement fraud, along with five independent variables: the number of independent commissioners, the number of audit committee members, firm size, leverage, and profitability. The collected data are subsequently analyzed using logistic regression to examine the relationships between the research variables.

The data used in this study are secondary data obtained from the annual reports of banking companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 observation period. These reports are publicly available through the IDX official website (www.idx.co.id) and the respective companies' websites.

Financial statement fraud serves as the dependent variable in this study and is assessed using the Beneish M-Score model. This model is designed to identify potential financial statement manipulation by evaluating several financial ratios that may indicate irregularities in a company's reported financial information.

Based on the resulting M-Score, companies are categorized into two groups: those identified as potential financial statement manipulators (fraud) and those classified as non-manipulators (non-fraud). The mathematical representation of the Beneish M-Score model is presented below:

$$\mathbf{M = -4{,}840 + 0{,}920DSRI + 0{,}528GMI + 0{,}404AQI + 0{,}892SGI + 0{,}115DEPI - 0{,}172SGAI + 4{,}679TATA - 0{,}327LVGI}$$

The measure employed is a dummy variable categorized into two groups:

1. Companies with a Beneish M-Score exceeding -2.22 are classified as potential financial statement manipulators and are assigned a binary value of 1.
2. In contrast, companies obtaining a Beneish M-Score below -2.22 are categorized as non-manipulators and receive a binary value of 0.

The independent variables examined in this study are described as follows:

1. An independent commissioner is a member of the board of commissioners who maintains no affiliation with controlling shareholders or other parties that could compromise their independence. The proportion of independent commissioners is determined by comparing the number of independent commissioners with the total membership of the board of commissioners.
2. Audit committee independence, as measured in this study, is represented by the proportion of audit committee members who possess expertise in accounting and finance. This ratio is obtained by dividing the number of audit committee members with financial expertise by the overall number of audit committee members.
3. Firm size refers to the scale of a company's operations and magnitude, which can be assessed through the resources it possesses (Mardani et al., 2020). In this research, company size is measured based on the total assets reported by banking companies. The measurement employs the natural logarithm of total assets to represent firm size.
4. Leverage reflects the extent to which a company relies on debt to finance its business activities relative to the capital provided by shareholders. This study uses the Debt-to-Equity Ratio (DER) to measure leverage, calculated by comparing the company's total debt with its total equity.

Profitability reflects a company's effectiveness in utilizing its assets and available resources to generate earnings. In this study, profitability is represented by Return on Assets (ROA), which indicates the extent to which a company's assets contribute to its profit generation. ROA is calculated by dividing net income by total assets, as expressed in the following formula:

$$\textbf{ROA} = \frac{\textbf{Net Income}}{\textbf{Total Assets}} \textbf{ x100\%}$$

Logistic regression is employed to investigate the effects of corporate governance mechanisms, firm size, and financial performance on financial statement fraud. This statistical technique is considered appropriate because the dependent variable is binary in nature, distinguishing between companies classified as potential financial statement manipulators and those categorized as non-manipulators. The dependent variable is therefore represented using a dummy coding system, with a value of 1 indicating potential manipulation and 0 representing non-manipulation.

$$\textbf{FRAUD} = \alpha + \beta 1\textbf{DKI} + \beta 2\textbf{KAI} + \beta 3\textbf{SIZE} + \beta 4\textbf{L} + \beta 5\textbf{P} + \textbf{e}$$

Description:
FRAUD = *Fraudulent Financial Statement*
α = Constant
β1, β2, β3, β4, β5 = Regression coefficients for the respective independent variables
DKI = Independent Board of Commissioners
KAI = Independent Audit Committee
SIZE = Firm Size
L = Leverage
P = Profitability
e = Error term

RESULTS AND DISCUSSION

The sample selection process was conducted using a purposive sampling technique, whereby companies were chosen based on predetermined research criteria. Out of the 47

banking companies listed on the Indonesia Stock Exchange (IDX), 44 fulfilled the established requirements. The remaining three companies were excluded because one did not publish its financial statements, while two others provided incomplete annual reports. Based on the five-year observation period (2019–2023), the initial sample generated 220 firm-year observations. After excluding 58 outlier observations, a total of 162 observations remained and were subsequently used for statistical analysis.

Logistic Regression Analysis

The Hosmer–Lemeshow test was performed to evaluate the goodness of fit of the logistic regression model by examining the consistency between the observed data and the model's predicted outcomes. The test results are presented below.

Table 1. Goodness-of-Fit Test Results

Step	Chi-square	df	Sig.
1	10.145	8	.255

As presented in Table 1, the Hosmer–Lemeshow test produces a significance level of 0.255, exceeding the 0.05 threshold. This result suggests that there is no statistically significant discrepancy between the observed data and the outcomes predicted by the model. Therefore, the logistic regression model demonstrates an acceptable level of goodness of fit and is considered suitable for further analysis.

The Overall Model Fit Test was performed to evaluate whether incorporating the independent variables improves the explanatory performance of the logistic regression model. The assessment involves comparing the initial model with the model that includes the independent variables. The results of this evaluation are presented below.

Table 2. Overall Model Fit Test Results

Iteration		-2 Log likelihood	Coefficients Constant
Step 0	1	221.583	.272
	2	221.583	.273
	3	221.583	.273

a. Constant is included in the model.
b. Initial -2 Log Likelihood: 221.583
c. Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

Table 3. Overall Model Fit Test Result (Block Number = 1) Iteration History[a,b,c,d]

Iteration		2 Log likelihood	Coefficients					
			Constant	Independent Board of Commissioners	Independent Audit Committee	Firm Size	Leverage	Profitability
Step 1	1	207.859	8.644	-1.219	.666	-.278	.114	6.109
1	2	204.797	11.220	-1.650	.700	-.360	.160	12.796
	3	204.507	12.015	-1.773	.728	-.386	.174	15.625
	4	204.503	12.047	-1.773	.740	-.387	.174	15.978
	5	204.503	12.048	-1.773	.741	-.387	.174	15.984
	6	204.503	12.048	-1.773	.741	-.387	.174	15.984

a. Method: Enterb.
b. Constant is included in the model.
c. Initial -2 Log Likelihood: 221.583
d. Estimation terminated at iteration number 6 because parameter estimates changed by less than .001.

The results displayed in Tables 3 and 4 indicate a reduction in the -2 Log Likelihood (-2LL) value from 221.583 in Block 0 (the initial model) to 204.503 in Block 1 (the model incorporating the independent variables). This decline demonstrates an improvement in the model's fit after the independent variables were included. Accordingly, the proposed logistic regression model provides a better fit to the observed data than the initial model.

The Nagelkerke R-Square statistic was employed to assess the proportion of variation in the dependent variable that can be explained by the independent variables included in the regression model. The results of the Nagelkerke R-Square analysis are reported below.

Table 4. Nagelkerke R-Square Test Results Model Summary

-2 Log Step	likelihood	Cox & Snell R Square	Nagelkerke R Square
1	204.503[a]	.100	.134

As reported in Table 5, the Nagelkerke R-Square value is 0.134, indicating that the independent variables included in the regression model account for 13.4% of the variation in financial statement fraud. The remaining 86.6% is associated with other factors that are not incorporated into the present research model.

The classification matrix was employed to assess the predictive accuracy of the logistic regression model in categorizing companies into the respective outcome groups. This analysis evaluates the model's ability to correctly classify observations as potential financial statement manipulators or non-manipulators. The results of the classification matrix assessment are presented below.

Table 5. Classification Matrix Test Results Correlation Matrix

Constant			Independent Board of Commissioners	Independent Audit Committee	Firm Size	Leverage	Profitability
Step	Constant	1.000	-.305	-.331	-.948	.451	.431
1	Board of Commissioners Independen	-.305	1.000	-.125	.128	-.145	-.145
	Audit Committee	-.331	-.125	1.000	.122	-.026	.068
	Firm Sized	-.948	.128	.122	1.000	-.531	-.477
	Leverage	.451	-.145	-.026	-.531	1.000	.274
	Profitability	.431	-.145	.068	-.477	.274	1.000

Source: Data Output SPSS

Table 5 reports the correlation coefficients among the independent variables examined in this study. As all correlation values are below the threshold of 0.8, the results suggest that there are no indications of multicollinearity among the independent variables

Regression Analysis

Regression analysis was performed to examine the relationships between the dependent variable and the independent variables. The findings of this analysis are presented below.

Table 6. Logistic Regression Analysis Results

Step 1	B	S.E	Wald	df	Sig.	Exp(B)
Independent Board of Commissioners	-1.773	1.620	1.198	1	.274	.170
Independent Audit Committee	.741	1.176	.396	1	.529	2.097
Firm Size	-.387	.120	10.343	1	.001	.679
Leverage	.174	.075	5.310	1	.021	1.190
Profitability	15.984	6.183	6.682	1	.010	8748877.327
Constant	12.048	4.071	8.756	1	.003	170716.827

Variable(s) entered in step 1: Independent Board of Commissioners, Independent Audit Committee, Firm Size, Leverage, Profitability.

Based on Table 6, the regression equation is:

FRAUD = 12,048 – 1,773 DKI + 0,741 KAI - 0,387 SIZE + 0,174 L + 15,984 P

The regression results show a constant coefficient of 12.048. In a logistic regression model, this value represents the baseline log-odds of financial statement fraud when all independent variables are held at zero; therefore, it should not be interpreted directly as a probability or likelihood of 12.048.

The independent board of commissioners has a negative regression coefficient (B = -1.773), suggesting an inverse relationship with the likelihood of financial statement fraud. However, the relationship is not statistically significant, as indicated by a significance value of 0.274, which exceeds the 0.05 threshold. Similarly, the audit committee variable exhibits a positive coefficient (B = 0.741), indicating a positive association with the likelihood of financial statement fraud. Nevertheless, this relationship is statistically insignificant (Sig. = 0.529).

Firm size demonstrates a negative and statistically significant relationship with financial statement fraud, as reflected by its regression coefficient of -0.387 and significance value of 0.001. This finding suggests that larger firms tend to have a lower likelihood of being classified as potential financial statement manipulators. In contrast, leverage has a positive and statistically significant relationship with financial statement fraud (Sig. = 0.021), indicating that higher leverage is associated with a greater likelihood of potential financial statement manipulation. Profitability also shows a positive and statistically significant relationship with financial statement fraud, with a significance value of 0.010.

Hypothesis Testing

1. The Effect of the Independent Board of Commissioners on Financial Statement Fraud

   The analysis of the independent board of commissioners variable, operationalized as the proportion of independent commissioners relative to the total number of board members, yields a regression coefficient of -1.773 and a significance value of 0.274. Since the significance value is greater than the 0.05 threshold, the variable does not demonstrate a statistically significant relationship with financial statement fraud. Although the negative coefficient indicates an inverse relationship, the effect is not statistically supported. Therefore, the findings do not provide sufficient evidence to confirm the proposed negative relationship between the independent board of commissioners and financial statement fraud. Accordingly, the first hypothesis (H1) is rejected.

2. The Effect of Audit Committee Financial Expertise on Financial Statement Fraud

   The regression analysis of audit committee financial expertise, measured by the proportion of audit committee members with financial expertise relative to the total number of audit committee members, produces a coefficient of 0.741 and a significance value of 0.529. Since the significance value exceeds the 0.05 level, the variable does not have a statistically significant relationship with financial statement fraud. Although the positive coefficient suggests an association in the opposite direction to that proposed in the hypothesis, the relationship is not statistically supported. Therefore, the findings do not provide sufficient empirical evidence to support the hypothesized negative relationship between audit committee financial expertise and financial statement fraud. Accordingly, the second hypothesis (H2) is rejected.

3. The Effect of Firm Size on Financial Statement Fraud

   The regression analysis indicates that firm size, measured using the natural logarithm of total assets, has a regression coefficient of -0.387 and a significance value of 0.001. Since the significance value is below the 0.05 threshold, firm size has a statistically significant relationship with financial statement fraud. The negative coefficient indicates an inverse relationship, suggesting that larger firms tend to have a lower likelihood of being classified as potential financial statement manipulators. Therefore, the empirical findings do not support the proposed positive relationship between firm size and financial statement fraud. Accordingly, the third hypothesis (H3), which predicts a positive effect of firm size on financial statement fraud, is rejected.

4. The Effect of Leverage on Financial Statement Fraud

   The regression analysis reveals that leverage, measured using the Debt-to-Equity Ratio (DER), has a positive regression coefficient of 0.174 and a significance value of 0.021. As the significance value is below the 0.05 threshold, leverage demonstrates a statistically significant positive relationship with financial statement fraud. The positive coefficient suggests that companies with higher leverage tend to have a greater likelihood of being classified as potential financial statement manipulators. These findings support the proposed positive relationship between leverage and financial statement fraud. Therefore, the fourth hypothesis (H4) is accepted.

5. The Effect of Profitability on Financial Statement Fraud

   The regression analysis shows that profitability, measured by the Return on Assets (ROA) ratio, has a positive regression coefficient of 15.984 and a significance value of 0.010. Since the significance value is below the 0.05 threshold, profitability exhibits a statistically significant relationship with financial statement fraud. The positive coefficient indicates that higher profitability is associated with a greater likelihood of a company being classified as a potential financial statement manipulator. These findings support the proposed positive relationship between profitability and financial statement fraud. Accordingly, the fifth hypothesis (H5), which predicts a positive effect of profitability on financial statement fraud, is accepted.

Discussion

The Effect of the Independent Board of Commissioners on Financial Statement Fraud

The hypothesis testing results reveal that the independent board of commissioners does not have a statistically significant relationship with financial statement fraud, as indicated by a regression coefficient of -1.773 and a significance value of 0.274. Since the significance level exceeds 0.05, the first hypothesis (H1) is rejected. This finding suggests that the proportion of independent commissioners does not significantly explain the likelihood of potential financial statement manipulation among the sampled companies.

The insignificant result may indicate that the presence of independent commissioners alone is insufficient to ensure effective supervision and prevent financial statement

manipulation. Although independent commissioners are expected to perform their supervisory responsibilities objectively and independently of management, their effectiveness may depend on factors beyond their numerical representation on the board. For instance, the quality of their oversight, professional competence, authority, and actual involvement in monitoring managerial activities may determine how effectively they fulfill their responsibilities. Therefore, increasing the proportion of independent commissioners does not necessarily guarantee stronger corporate governance or reduce the likelihood of financial statement manipulation.

Furthermore, the descriptive statistics show that the average proportion of independent commissioners in the sample is 0.574136, indicating a relatively high level of representation. Nevertheless, this relatively high proportion does not translate into a statistically significant relationship with financial statement fraud. This suggests that numerical representation alone may not adequately reflect the effectiveness of the board's supervisory function. These findings are consistent with previous studies conducted by Dzaki and Suryani (2020), Widowati and Oktoriza (2021), and Natalie (2024), which also found no statistically significant relationship between the independent board of commissioners and fraudulent financial statements.

The Effect of Audit Committee Financial Expertise on Financial Statement Fraud

The regression results for audit committee financial expertise show a coefficient of 0.741 and a significance value of 0.529. As the significance value exceeds the 0.05 threshold, the relationship between audit committee financial expertise and financial statement fraud is statistically insignificant. Therefore, the second hypothesis (H2) is rejected. This finding suggests that the proportion of audit committee members with financial expertise does not significantly explain the likelihood of potential financial statement manipulation among the sampled companies.

In principle, audit committee members with financial and accounting expertise are expected to contribute to effective corporate oversight by monitoring accounting policies, evaluating internal control systems, reviewing financial reporting processes, and ensuring compliance with applicable regulations. These responsibilities are intended to strengthen the reliability of financial reporting and reduce opportunities for manipulation. However, the findings suggest that financial expertise among audit committee members, as measured by their proportion within the committee, does not necessarily translate into effective monitoring of financial reporting practices. The effectiveness of an audit committee may depend not only on the members' professional qualifications but also on their independence, level of involvement, authority, and commitment to carrying out their supervisory responsibilities.

The descriptive statistics reveal that the average proportion of audit committee members with financial expertise is 0.859630, or approximately 85.96%. Although this figure indicates a relatively substantial representation of financial expertise, it does not correspond to a statistically significant relationship with financial statement fraud. This finding implies that the proportion of financially knowledgeable audit committee members alone may not be sufficient to explain variations in the likelihood of financial statement manipulation. The results are consistent with previous studies by Dzaki and Suryani (2020), Widowati and Oktoriza (2021), and Fitrianingsih et al. (2021), which similarly reported no significant relationship between audit committee characteristics and fraudulent financial statements.

The Effect of Firm Size on Financial Statement Fraud

The regression analysis indicates that firm size has a coefficient of -0.387 and a significance value of 0.001. Since the significance value is below the 0.05 threshold, firm size has a statistically significant negative relationship with financial statement fraud. Accordingly, the third hypothesis (H3), which proposes a positive relationship between firm size and

financial statement fraud, is rejected. The negative coefficient suggests that larger companies tend to have a lower likelihood of being classified as potential financial statement manipulators.

One possible explanation for this finding is that larger companies generally receive greater attention and scrutiny from external stakeholders, including independent auditors, investors, regulators, and the general public. Such scrutiny may encourage management to maintain the credibility of financial reporting and comply with applicable accounting standards in order to protect the company's reputation. In addition, larger companies may have greater financial and organizational resources to establish stronger internal control systems and implement more comprehensive monitoring mechanisms. These arrangements can help reduce information asymmetry between management and other stakeholders, thereby limiting opportunities for financial statement manipulation.

The descriptive statistics show that the average firm size in the sample is 31.5719. Although this value is described as relatively low in the study's descriptive classification, the regression results demonstrate a significant negative relationship between firm size and financial statement fraud. This indicates that variations in company size are statistically associated with differences in the likelihood of potential financial statement manipulation. These findings are consistent with previous research conducted by Fitrianti (2017), Karina and Sutarti (2021), and Adyastuti (2022), which also identified a negative relationship between firm size and fraudulent financial statements.

The Effect of Leverage on Financial Statement Fraud

The regression results demonstrate that leverage has a coefficient of 0.174 and a significance value of 0.021. As the significance value is lower than the 0.05 threshold, leverage has a statistically significant positive relationship with financial statement fraud. Therefore, the fourth hypothesis (H4), which predicts a positive relationship between leverage and financial statement fraud, is accepted. This result indicates that companies with higher debt-to-equity ratios tend to have a greater likelihood of being classified as potential financial statement manipulators.

A possible explanation for this relationship is that high leverage may create financial pressure on management, particularly when companies face substantial debt obligations or the risk of failing to comply with debt covenant requirements. Under such circumstances, management may have incentives to present a more favorable financial position to creditors and other external stakeholders. This pressure may increase the possibility of financial reporting manipulation as management attempts to maintain the company's perceived financial stability and demonstrate its ability to meet financial obligations. From an agency theory perspective, conflicts of interest may arise between management, shareholders, and creditors because each party has different expectations regarding the company's financial performance and risk exposure. Consequently, financial pressure associated with high leverage may encourage managerial behavior that compromises the reliability of financial statements.

The descriptive statistics indicate that the average leverage ratio in the sample is 4.6637, which is classified as relatively low according to the study's descriptive categorization. Nevertheless, the regression analysis reveals a statistically significant positive relationship between leverage and financial statement fraud. This suggests that even within the observed sample, differences in leverage are significantly associated with variations in the likelihood of potential financial statement manipulation. The findings are in line with previous studies conducted by Ardhiansyah et al. (2019), Dzaki and Suryani (2020), and Listyawati (2020), which also reported a positive relationship between leverage and fraudulent financial statements.

The Effect of Profitability on Financial Statement Fraud

The regression analysis reveals that profitability, measured by the Return on Assets (ROA) ratio, has a coefficient of 15.984 and a significance value of 0.010. Since the significance value is below the 0.05 threshold, profitability demonstrates a statistically significant positive relationship with financial statement fraud. Accordingly, the fifth hypothesis (H5), which proposes a positive relationship between profitability and financial statement fraud, is accepted. This finding suggests that companies with higher profitability tend to have a greater likelihood of being classified as potential financial statement manipulators.

One possible explanation for this finding is that profitability reflects management's ability to generate earnings through the utilization of company assets. High profitability may create expectations among investors and other external stakeholders regarding the company's financial performance and future prospects. Consequently, management may experience pressure to maintain favorable financial results and meet performance targets in order to preserve investor confidence and the company's reputation. Such pressure may create incentives to manipulate financial reporting when actual performance does not meet the expectations of stakeholders.

This relationship can also be examined through the perspective of agency theory, which explains the potential conflicts of interest between company owners and managers. As managers are entrusted with making operational and financial decisions on behalf of shareholders, they may have incentives to present the company's performance favorably to demonstrate their managerial effectiveness. In certain circumstances, the desire to meet performance expectations or pursue personal interests may encourage managers to engage in financial reporting practices that do not accurately represent the company's actual financial condition.

The descriptive statistics show that the average profitability value in the sample is -0.0009, indicating a relatively low average ROA. Nevertheless, the regression results demonstrate a statistically significant positive relationship between profitability and financial statement fraud. This finding indicates that variations in profitability are significantly associated with differences in the likelihood of potential financial statement manipulation. The results are consistent with previous studies by Indarti et al. (2022), Hidayanto and Munandar (2022), and R. I. Sari (2024), which also found a positive relationship between profitability and fraudulent financial statements.

CONCLUSION

This study aims to investigate the relationships of corporate governance, firm size, and financial performance with potential financial statement fraud among banking companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. Based on the results of the data analysis and hypothesis testing, the following conclusions can be drawn:

1. The independent board of commissioners does not have a statistically significant relationship with potential financial statement fraud among banking companies listed on the IDX. This finding suggests that the proportion of independent commissioners, by itself, is insufficient to explain variations in the likelihood of financial statement manipulation within the sampled companies.
2. Audit committee financial expertise does not demonstrate a statistically significant relationship with potential financial statement fraud among banking companies listed on the IDX. This result indicates that the proportion of audit committee members with financial expertise does not significantly explain the likelihood of financial statement manipulation.
3. Firm size exhibits a significant negative relationship with potential financial statement fraud among banking companies listed on the IDX. This finding suggests that larger companies tend to have a lower likelihood of being classified as potential financial statement manipulators. Greater organizational resources and more extensive internal and external monitoring may contribute to stronger financial reporting oversight.

4. Leverage has a significant positive relationship with potential financial statement fraud among banking companies listed on the IDX. This finding indicates that companies with higher debt-to-equity ratios tend to face a greater likelihood of potential financial statement manipulation. Therefore, leverage warrants attention from management, investors, creditors, and other stakeholders when assessing financial reporting risks.
5. Profitability demonstrates a significant positive relationship with potential financial statement fraud among banking companies listed on the IDX. This result suggests that higher profitability is associated with a greater likelihood of potential financial statement manipulation. The pressure to maintain favorable financial performance and meet stakeholder expectations may provide incentives for management to manipulate financial reporting.

Based on the findings of this study, several recommendations can be proposed for future research:

1. Future studies are encouraged to broaden the research scope by including companies from different industrial sectors and extending the observation period to obtain more comprehensive empirical evidence. Researchers may also consider incorporating additional explanatory variables, such as audit committee tenure, the frequency of audit committee meetings, and managerial ownership. Including these variables may provide a more comprehensive understanding of the factors associated with potential financial statement fraud and improve the explanatory capacity of the research model.
2. Utilize control variables, such as firm age, to ensure greater accuracy and reduce bias in future studies. Researchers are also encouraged to refine the research model by incorporating moderating and intervening variables, as well as employing alternative proxies to measure fraudulent financial statements, thereby developing a superior research model.
3. Extend research to the public sector, given that government entities are among the organizations most significantly harmed by fraud.

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