



CORPORATE GOVERNANCE, QUALITY OF FINANCIAL STATEMENTS, FIRM SIZE, AND FINANCIAL STABILITY ON FRAUDULENT FINANCIAL REPORTING ON LISTED INDONESIA STOCK EXCHANGE BANKING INSTITUTIONS

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KEYWORDS

Fraudulent Financial Reporting, Audit Committee, Independent Commissioners, Quality of Financial Statements, Firm Size, Financial Stability.

ABSTRACT

This study examines the impact of corporate governance, quality of financial statements, firm size, and financial stability on fraudulent financial reporting at bank financial institutions listed on the Indonesia Stock Exchange from 2014 to 2017. Beneish M-Score measures fraudulent financial reporting. Sample selection uses purposive sampling consisting of 172 observations. Logistic regression is used as an analysis technique. Testing results showed that audit committee, quality of financial statements, Firm size, and financial stability affect fraudulent financial reporting. At the same time, independent commissioners have no impact on fraudulent financial reporting. The implication of this study is that good corporate governance, high-quality financial reporting, large company size, and financial stability can significantly reduce the risk of financial reporting fraud in financial institutions such as banks. In other words, banks with transparent corporate governance practices, accurate financial reporting, large size, and strong financial stability are more likely to avoid fraudulent practices in financial reporting.

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INTRODUCTION

"SAS No. 99 about Consideration of Fraud in Financial Statement Audit" states that one form of financial fraud is fraud against financial reporting. Financial fraud is a concept that includes a variety of activities or types of financial fraud. The first is Misstatements arising from fraudulent financial reporting, an intentional misstatement in the form of omission or disclosure in financial reporting designed to disadvantage users of financial statements.

Second, namely the presentation of assets that are not appropriate, namely misstatements resulting from the theft of assets of an entity. The two misstatements of the financial statements caused them to be inappropriate for presentation because they were not in accordance with generally accepted accounting principles (GAAP). This study will focus on the first type of fraud, namely misstatements that arise from fraudulent financial reporting.

Some cases have been delegated the financial institution supervisory field to the investigation department of the Financial Services Authority, where the total is 108 cases in the period ranging from 2014 to 2017, including 59 cases in 2014, 23 cases in 2015, and 26 cases as of the third quarter of 2017. "This type of case is the case in the financial institution from 2014 until the third quarter of 2017. The types of cases that occurred are 55% of credit cases, 21% of registrations manipulation, 15% of embezzlement of funds, 5% transfer of funds, and 4% of acquisitions" (Liputan6.com, 2014). The data sources presented above show the fact that the financial and banking sector is one of the sectors that has experienced the most cases of fraud; this case has a felt impact on stakeholders of

companies listed on the Indonesia Stock Exchange, especially where there is increasing concern among the public as investors, auditors, creditors and other stakeholders in investing and making business decisions.

The results of previous research conducted (Prasetyo, 2014); (Handoko Ramadhani, 2017) (Wicaksono & Chariri, 2015) show that the audit committee harms fraudulent financial reporting. This means that more members of the audit committee do not impactively reduce fraudulent financial reporting.

Besides that, the outcome of previous research conducted by (Prasetyo, 2014), (Sihombing & Rahardjo, 2014), (Kamarudin et al., 2014), and (Handoko & Ramadhani, 2017) discovered that independent commissioners had no impact on fraudulent financial reporting. This means that the increasing number of independent commissioners in bank financial institutions can impact companies to monitor the possibility of fraudulent financial reporting. However, on the contrary, research conducted by (Murhadi, 2009); (Wicaksono Chariri, 2015) shows that independent commissioners harm fraudulent financial reporting.

Next, (Kustiawan, 2016), (Beuselink & Manigart, 2007), (Ball & Shivakumar, 2006) that the quality of financial statements impacts fraudulent financial reporting. This means that the better the quality of financial statements, the possibility of fraudulent financial reporting will also be reduced.

Besides that, (Prasetyo, 2014) and (Kamarudin et al., 2014) show that when a Firm owns smaller assets, it can impassively reduce fraudulent financial reporting. On the contrary, this finding does not support the results of a study by (Handoko Ramadhani, 2017), which found that Firm size harmed fraudulent financial reporting.

The results of a study conducted by (Sihombing & Rahardjo, 2014), (Tiffani & Marfuah, 2015), (Annisa & Asmaranti, 2016) show that "financial stability calculated by ratio of changes in total assets has a significant positive impact on fraudulent financial statement risk. This shows increase in the ratio of changes in total assets will increase the risk of fraudulent financial statements, in other words an increase in the ratio of changes in total assets can be a pressure for Firm management to commit fraud in an unstable financial condition" (Annisa & Asmaranti, 2016). Whereas (Nugraheni Triatmoko, 2017) found that financial stability harmed fraudulent financial reporting.

Based on the background description above, this study aims to analyze the influence of corporate governance, financial report quality, company size, and financial stability on financial reporting fraud in banking institutions listed on the Indonesia Stock Exchange from 2014 to 2017. The benefit of this research is to provide a better understanding of the factors influencing financial reporting fraud in banking institutions. By understanding the importance of good corporate governance, high-quality financial reporting, large company size, and financial stability in reducing the risk of fraud, financial institutions and regulators can take more effective measures to prevent and address fraudulent practices in bank financial reporting. This study provides a strong foundation for the development of policies and best practices in the banking industry, which, in turn, can enhance the integrity and public trust in financial institutions.

METHOD

The population of this study is the bank's financial institutions "listed on the Indonesia Stock Exchange in 2014-2017. Sampling was carried out using purposive sampling: "Financial institutions of banks listed on the IDX during the observation period of 2014-2017 and reported the full annual report, available at www.idx.co.id during the observation period and the report audited annually. Total observations amounted to 172 observations.

The dependent variable in this study is fraudulent financial reporting measured on a dummy scale, using a Beneish M-Score, if the M-Score is smaller than -2.22 means the company "that does not perform fraudulent financial reporting is given a score of 0. Whereas if the M-Score is more excellent from -2.22 for companies proven to have fraudulent financial reporting, given a score of 1.

The independent variables in this study are corporate governance (audit committee, independent commissioner), financial statement quality, size of the company, and financial stability. The coefficient of significant negative net income can measure the quality of financial statements. This measurement is used by Barth et al. (2008).

The analysis was performed using the logistic regression analysis method using the SPSS (Statistical Package for Social Science) computer program. The best method is selected with the Overall Test model used to assess the overall model that has been hypothesized to fit or not with the data.

Logistic regression is a regression used to show the regression equations if the dependent variable is measured by scale. The logistic regression method was used to measure on a dummy scale.

$$\text{Ln} \left(\frac{p}{1-p} \right) = \alpha - \beta_1 \text{KA}_{it} - \beta_2 \text{KI}_{it} - \beta_3 \text{KLK}_{it} + \beta_4 \text{UP}_{it} + \beta_5 \text{SK}_{it} + \varepsilon$$

Descriptions:

- FFR = Fraudulent Financial Reporting
- α = Parameters/constants
- $\beta_1 \beta_2 \beta_3 \beta_4 \beta_5$ = Regression Coefficient
- KA = Audit Committee
- K.I. = Independent Commissioner
- KLK = Quality of Financial Statements
- UP = Firm Size
- SK = Financial Stability
- i = Bank Financial Institution
- t = Year
- ε = Error Terms / Residual Errors

RESULT AND DISCUSSION

Logistic Regression Analysis

Table 1. Overall Fit Model Test Results

Iteration History ^{a,b,c,d}		
-2 Log likelihood	Log Likelihood Value	Coefficients Constant
-2Log Likelihood block 0	238,350	0,047
-2Log Likelihood block 1	156,815	-3,840

Source: SPSS

Based on Table 1, information is obtained that the test is done by comparing the value of -2 Log Likelihood block 0 with the value of -2 Log Likelihood block 1. Value - 2 Log Likelihood block 0 is 238,350. After entering the five independent variables, the value of -2 Log Likelihood Block 1 decreased to 156,815. A decrease in Log Likelihood shows a better regression model, or in other words, the model is hypothesized to fit with the data.

Regression Model Feasibility Test Results

Table 2. Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	13.626	8	0.092

Source: SPSS

Tests showed a Chi-square value of 13,626 with a significance of 0, 092. Based on these results, because the significance value is more significant than 0.05, the model can be concluded capable of predicting the value of the observations, or it can be said that the model is acceptable because it matches the observational data.

Determination Coefficient Test Results (Nagelkerke et al.)

Table 3. Determination Coefficient Test Results (Nagelkerke et al.)

Step	-2 Log likelihood	Model Summary	
		Cox & Snell R Square	Nagelkerke R Square
1	156.815 ^a	0.378	0.503

Source: SPSS

The value of Nagelkerke R Square indicates the magnitude of the coefficient of determination in the logistic regression model. Value Nagelkerke R Square is at 0,378, which means that the dependent variable that fraudulent financial reporting can be explained by 37.8 % by the independent variable, namely the audit committee, independent directors, the quality of financial reports, Firm size, and financial stability. While other variables outside this study explain the rest.

Classification Matrix Results

Table 4. Classification Tabel^a

	Observed	Predicted		Total	Percentage Correct	
		<i>Fraudulent Financial Reporting</i>				
		Non-FFR	FFR			
Step 1	<i>Fraudulent Financial Reporting</i>	Non-FFR	68	16	84	81.0
		FFR	13	75	88	85.2
	Overall Percentage			172	83.1	

Source: SPSS

The predictive power of the regression model to predict the likelihood of fraudulent financial reporting is 85.2 %. This shows 75 (85.2 %) companies are predicted to do fraudulent financial reporting from 88 companies with fraudulent financial reporting. The predictive 81 % means that with the regression model used, 68 (81%) companies are predicted not to do fraudulent financial reporting from 84 companies that do not carry out fraudulent financial reporting, or the predictive power of the regression model was 83.1 %.

Hypothesis Testing

Table 5. Simultaneous Testing

Omnibus Tests of Model Coefficients				
		Chi-square	Df	Sig.
Step 1	Step	81,534	5	0,000
	Block	81,534	5	0,000
	Model	81,534	5	0,000

Source: SPSS

Table 4.6 above shows that simultaneously, the audit committee, independent commissioners, the quality of financial statements and financial stability can explain the fraudulent financial reporting. This can be seen from the Chi-Square results of 81,534 with a pdf of 5 and a significance of 0,000, whose value is less than 0.05. This shows that the 1st hypothesis was accepted. This is concluded by the audit committee, independent commissioner, financial statement quality, Firm size, and financial stability simultaneously impact the fraudulent financial reporting.

Partial Testing

Table 6. Variables in the Equation

Variables	B	S.E.	Wald	Df	Sig.	Exp(B)	
Step 1 ^a	X1	-9.419	2.134	19.481	1	0.000	0.000
	X2	-1.479	1.680	0.775	1	0.379	0.228
	X3	-71.746	20.083	12.763	1	0.000	0.000
	X4	0.338	0.111	9.291	1	0.002	1.402
	X5	0.713	0.287	6.158	1	0.013	2.041
	Constant	-3.840	3.927	0.956	1	0.328	0.022

Source: SPSS

Based on the table above, the logistic regression model obtained is as follows:

$$\ln\left(\frac{p}{1-p}\right) = -3,840 - 9,419 - 1,479 - 71,746 + 0,338 + 0,713 + \varepsilon$$

Based on the logistic regression equation above, it is known that the constant variable has a negative coefficient of -3,840. It can be concluded that fraudulent financial reporting is not only impacted by audit committees, independent commissioners, financial report quality, Firm size, and financial stability, but other variables impact it.

Based on Table 6, the audit committee variable -9,419 of 0,000, the second hypothesis is successfully supported. This research successfully proved the impact of the audit committee on fraudulent financial reporting.

The independent commissioner variable showed -1.479 of 0.379, with the results that the third hypothesis is unsuccessful. This study failed to prove the impact of independent commissioners on fraudulent financial reporting.

Variable quality of financial statements -71.746 of 0,000, with the result that the fourth hypothesis was successfully supported. This study proves the impact of the quality of financial statements on fraudulent financial reporting.

The firm size variable is 0.338 of 0.002, with the result that the 5th hypothesis was successfully supported. This research proved the impact of Firm size on fraudulent financial reporting.

Variable financial stability showed 0.713 of 0.013, with the result that the sixth hypothesis was successfully supported. This research proved the impact of financial stability on fraudulent financial reporting.

Simultaneous test results show the Chi-Square results of 81,534 with a pdf of 5 and a significance of 0,000, whose value is smaller than 0.05. This means that the first hypothesis (H₁) is accepted. Audit committees, independent commissioners, the quality of financial statements, firm size, and financial stability together (simultaneously) affect fraudulent financial reporting.

Previous researchers have also found the impact of audit committees, independent commissioners, quality of financial statements, firm size, and financial stability on fraudulent financial reporting. They are (Razali & Arshad, 2014); (Wicaksono & Chariri, 2015); (Akins et al., 2017); (Prasetyo, 2014); (Kamarudin et al., 2014); (Handoko & Ramadhani, 2017); (Sihombing & Rahardjo, 2014); (Annisya & Asmaranti, 2016); (Tiffani & Marfuah, 2015); (Nugraheni & Triatmoko, 2017); (Saputra & Kesumaningrum, 2017); (Wicaksono & Chariri, 2015); Barth et al (2008). They state that the audit committee, independent directors, the quality of financial reports, firm size and financial stability impact fraudulent financial reporting.

Testing the impact of the audit committee on fraudulent financial reporting shows a negative impact with a regression coefficient of -9.419 and a significance level (p) of 0.000. This research

successfully proved the impact of the audit committee on fraudulent financial reporting in bank financial institutions. The results of this study support the results of previous studies conducted by (Kamarudin et al., 2014); (Razali & Arshad, 2014); (Wicaksono & Chariri, 2015) they found that the audit committee affected the fraudulent financial reporting. Instead, these findings do not support (Prasetyo, 2014) research results (Handoko & Ramadhani, 2017), which found that the audit committee harmed fraudulent financial reporting.

Testing the impact of independent commissioners on fraudulent financial reporting shows that it has no impact, with -1.479 of $0,379$. This study failed to prove the impact of independent commissioners on fraudulent financial reporting on bank financial institutions listed on the Indonesia Stock Exchange in 2014-2017. The results of this study support the results of previous studies conducted by (Prasetyo, 2014); (and Chariri, 2015); they found that independent commissioners had a negative impact on fraudulent financial reporting. However, on the contrary, these findings do not support the results of (Prasetyo, 2014); (Kamarudin et al., 2014) (Handoko & Ramadhani, 2017); (Sihombing & Rahardjo, 2014) that independent commissioners have a positive impact on fraudulent financial reporting.

They are testing the impacts of financial statement quality on fraudulent financial reporting, which shows a negative impact with a regression coefficient of -71.746 and a significance level (p) of 0.000 . This study proves the impact of the quality of financial statements on fraudulent financial reporting on bank financial institutions. This study's results support previous studies conducted by (Beuselinck Manigart, 2007). They had a positive impact on fraudulent financial reporting.

Testing the impact of firm size on fraudulent financial reporting shows a positive impact with $0,338$ and 0.002 , which means the fifth hypothesis was successfully supported. This research proved the impact of Firm size on fraudulent financial reporting on bank financial institutions. The results of this study support the results of previous studies conducted by (Prasetyo, 2014); (Kamarudin et al., 2014); they found a positive impact on fraudulent financial reporting.

Testing the impacts of financial stability on fraudulent financial reporting shows that a positive impact of $0,713$ and 0.013 means the 6th hypothesis was successfully supported. This research proved the impact of financial stability on fraudulent financial reporting on bank financial institutions. The results of this study support the results of previous studies conducted by (Tiffani and Marfuah, 2015) (Asmaranti, 2016) (Saputra & Kesumaningrum, 2017), who found a positive impact on fraudulent financial reporting.

CONCLUSION

This study concludes that audit committee, financial report quality, firm size, and financial stability impact the fraudulent financial reporting of bank financial institutions listed on the Indonesia Stock Exchange. At the same time, the independent commissioner variable does not affect the fraudulent financial reporting of bank financial institutions listed on the Indonesia Stock Exchange.

This study is limited to bank financial institutions, thus allowing differences in the results of the research conclusions if the study is conducted on different research objects.

Future studies can widen the unit of analysis, not limited to bank financial institutions. Thus, future studies can find a result that can finally be used as a general conclusion. In addition, subsequent studies can extend the time interval and add other variables that are thought to impact fraudulent financial reporting.

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