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THE INFLUENCE OF THE AUDIT COMMITTEE AND FRAUD DIAMOND ON FRAUDULENT FINANCIAL STATEMENT IN MANUFACTURING COMPANIES OF VARIOUS INDUSTRIES SECTOR LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract: *Fraudulend financial statement are generally difficult to detect, due to the various motivations behind the actions taken. The purpose of this study is to prove the effect of the audit committee and the fraud diamond on the fraudulent financial statement by looking at the effect of the variables that are proxies in this study. The population in this study were manufacturing companies in the various industrial sectors in 2015-2019. The sampling technique in this research is purposive sampling. The type of data used is secondary data from the Indonesia Stock Exchange in the form of an annual report. The sample in this study were 22 companies, with 110 observational data. The type of research method used is panel data regression analysis method. The results of the analysis of this study indicate that simultaneously the audit committee and the fraud command element have an effect on the fraudulent financial statement and partially show that only financial stability and financial targets have an effect on the fraudulent financial statement. While the financial target variables, nature of industry, ineffective monitoring, change in auditors, change of directors and audit committees have no effect on fraudulent financial statement.*

Keywords: *Audit Committee, Fraud Diamond, Fraudulent Financial Statements, Manufacturing Companies of Various Industries Sector*

1. Introduction

Financial statement is an indicator to assess a company's performance. The Financial statement contain information needed by both internal and external parties. This financial information is used by users of corporate reports such as for decision making, business evaluation, budgeting, evaluation of management performance, internal control or as tax determination. Therefore, Financial statements are very important for a company, especially a go-public company, this company has a high vulnerability to fraudulent Financial statements. compared to companies that have not "go public"

According to the Association of Certified Fraud Examiners or ACFE (2016) There are 3 schemes of fraudulent actions carried out by management and employees within the company including: corruption, misappropriation of assets, and fraud/manipulation of Financial statements. In addition, the Association of Certified Fraud Examiners or ACFE (2016) found that fraudulent Financial statementing caused financial losses of 75% (USD 975,000), corruption of 15% (USD 200,000), and misappropriation of assets by 10% (USD 125,000). This can indicate that fraudulent Financial statementing is the type of fraud that causes the largest financial loss compared to misappropriation of assets and assets corruption. This big loss occurs when the perpetrators of fraudulent financial statements are dominated by people who have more authority in the company such as top-level managers, so they are easy to manipulate or fraud. Therefore, this fraud is also often referred to as "White Collar-Crime".(Prasmaulida, 2016).

In this study, there is a gap phenomenon in the fraudulent financial statement variable. This gap phenomenon occurs in the fraudulent financial statement case of a property company, namely PT. Hanson International, tbk (Kompas.com). It is suspected that a violation of Financial Accounting Standards (SAK) 44 concerning Accounting for Real Estate Activities was found. The Financial Services Authority (*OJK*) has disputed the full recognition of the accrual method, so that even in the 2016 Annual Financial statement (LKT), the transaction was not disclosed in the 2016 LKT (Kompas.com).

In this study, the fraudulent financial statement was allegedly influenced by several things, including the Audit Committee and the Fraud Diamond. The Audit Committee is a committee created by and responsible to the Board of Commissioners in helping carry out the duties and functions of the Board of Commissioners (Peraturan Otoritas Jasa Keuangan Number 55 /OJK.04/2015) . Formation of an audit committee to assist in monitoring the board of directors and management team, as well as ensuring the implementation of good corporate governance principles. The influence of the audit committee on fraudulent financial statements according to Dwiyanti and Astriena (2018) companies that have audit committees are more effective in carrying out their functions so that the profit information presented in the company's Financial statement of good quality. This is supported if the audit committee has a larger number, then they can exchange the expertise and the different experiences that each member has. This statement contradicts with Aprilliani (2017) which states that companies that have an audit committee, but are less effective in monitoring company performance.

In addition to the Gap Phenomenon, this study also found a research gap on the effect of fraud diamond on fraudulent financial statements. In the theory of fraud diamond, there are elements used such as Pressure, Opportunity, Rationalization, and Capability. The research gap in this study occurred Pressure proxy, namely in research conducted by Tiffani and Marfuah (2015), Nugraheni and Triatmoko (2017), Dwiyanti and Astriena (2018) who found that pressure had a positive effect on *fraudulent financial statement*. The higher the profit, the condition of financial instability, and external financing sources company, the higher the company's probability of committing financial statement fraud. However, the research results of Tiffani and Marfuah (2015), Nugraheni and Triatmoko (2017), as well as Dwiyanti and Astriena (2018) contrary to the results of research conducted by Murtanto and Sandra (2019) and Mardianto and Tiono (2019). According toMurtanto and Sandra (2019) and Mardianto and Tiono (2019) pressure has no effect on fraudulent financial statements.

In the opportunity element, there are The research gap which is in the research conducted Murtanto and Sandara (2019) and Lestari and Henny (2019) who found that *opportunity* positive effect on *fraudulent financial statement*. Weak supervision and internal control in a company can be used by management to commit financial statement fraud. However, the research results by Murtanto and Sandara (2019) and Lestari and Henny (2019) contrary to the results of research conducted by Wahyuni and Budiwitjaksono (2017) and Yesiariani and Rahayu (2017). According toWahyuni and Budiwitjaksono (2017) and Yesiariani and Rahayu (2017) *Opportunity* has no effect on fraudulent financial statements.

In the Rationalization element there are The research gap is in the research conducted Mardianto and Tiono (2019) and Wahyuni and Budiwitjaksono (2017) who found that *Rationalization* positive effect on *fraudulent financial statement*. Companies that frequently change auditors are considered to be able to avoid fraudulent acts that may have been detected by the previous auditor. However, the research results Mardianto and Tiono (2019) and Wahyuni and Budiwitjaksono (2017) contrary to the results of research conducted by Murtanto and Sandara (2019). According to Murtanto and Sandara (2019) rationalization has no effect on fraudulent financial statements.

Moreover about capability element which found the research gaps. According to Puspitadewi and Sormin (2016) who found that *capability* positive effect on *fraudulent financial statement*. Changes in the board of directors are generally related to the political content and interests of certain parties due to too large a target or the amount of compensation bonus for the agreement given by the company. However, the research results by Puspitadewi and Sormin (2016) contrary to the results of research conducted by Yulistyawati et al, (2019). According to Yulistyawati et al, (2019) *capability* has no effect on fraudulent financial statements.

Based on the phenomenon of the gap regarding *fraudulent financial statement* and the research gap as revealed in the background of this research, the research on Audit Committee and Fraud diamond against *Fraudulend Financial Statement* multi-industry sub-sector manufacturing company interesting and important to do.

Theory Basis

Agency Theory

Agency theory is a theory that explains a contract between the principal (the owner of the company whose main majority shareholder) and the agent (the company manager) to carry out the company's activities. The principal as the owner of the company is obliged to provide facilities and funds for the company's operational needs, while the agent as the manager of the company is obliged to manage the company entrusted by the shareholders to him, for the prosperity and benefit of the shareholders, through the improvement of the company (Santoso, 2015).

Recognizing the importance of the information content in financial reports and managerial reports, managers are motivated to improve their company's performance. However, the reality on the ground shows that there are some managers who do not succeed in achieving their performance goals, so that the information to be published in the financial statements does not satisfy some parties, especially the principal as shareholders and owners of the company. With these problems, there will be different interests and backgrounds of the principal and agent so that they are contradictory to each other which will lead to conflict with the attraction of each other (Suripto, 2020). As for the problems that arise, it causes agency costs which according to Jensen and Meckling (1976) consists of: (1) the cost of monitoring, (2) the cost of bonding , (3) the cost of the residual loss.

Fraud

Association of Certified Fraud Examiners (ACFE) states that fraud is an act of fraud or a mistake made by a person or entity who knows that the error can result in several benefits that are not good for the entity or individual. Fraud is divided into three (3) typologies of action (Fraud Free), namely:

1) Misappropriation of assets

   Asset misappropriation includes the theft of assets or property of the company or other parties. This can be used as the easiest form of fraud to detect because it is tangible or can be measured/calculated (defined value).

2) Fraudulent financial reporting

   Fraudulent statements includes actions taken by officials/executives of a company or government agency to cover up the actual financial condition by carrying out financial engineering in the presentation of its financial statements to gain profit (corruption).

3) Corruption .

   Actions on abuse of authority or conflict of interest, illegal acceptance (illegal gratuities), bribery, and economic extortion.

Fraudulent Financial Statement

Association of Certified Fraud Examiners (ACFE) defines fraudulent financial statements or fraudulent financial statements as follows:

"The deliberate misrepresentation of the financial condition of an enterprise accomplished through the intentional misstatement or omission of amounts or disclosures in the financial statements in order to deceive financial statement users."

Fraud which has the meaning as a deliberate misrepresentation of the financial condition of a company that is carried out through intentional misstatements or omissions of amounts or disclosures in financial statements to deceive users of financial statements.

Audit Committee

The audit committee is a committee created by and responsible to the board of commissioners to contribute in carrying out the duties and functions of the board of commissioners. The audit committee has a role in supervising the manager so that he does not take actions that can benefit himself so that the existence of an audit committee in the company can reduce fraud in the preparation of financial reports by the company's management.(Muranto and Sandara, 2019).

Fraud Diamond

Fraud Diamond is a renewal concept of the fraud triangle theory proposed by Cressey (1953), namely the elements of pressure, opportunity, and rationalization for the detection of fraud in the financial statements, the fraud diamond concept adds three conditions found by Cressey (1953) which then these factors can influence someone to commit fraud, with the element of ability (capability).

Pressure

Pressure is a condition that makes someone commit fraud. The existence of motivation within management to commit fraud, for example the lack of income earned, the necessities of life are large enough, this is a trigger for management to act in their own interests.(Aprilia, 2017).

Opportunity

Opportunity is an opportunity to commit fraud. In this case, the company's management can use the opportunity to commit fraud secretly so as not to be known by many people (risk averse). Cheating will not be created if there are only opportunities without being followed by weak controls (Aprilia, 2017)

Rationalization

Rationalization is an attitude that allows someone to commit fraud, and considers his actions are not wrong (Annisya et al, 2016). Rationalization makes someone who initially does not want to commit fraud finally does it. This rationalization makes personal reasons (because there are other factors) to justify an action even though the action is actually wrong (Putra, 2019).

Capability

Capability is a qualitative factor according to Wolfe and Hermanson is one of the complements to the fraud triangle model proposed by Cressey (1953). Capability in question is the nature of individuals in committing fraud, which encourages them to seek opportunities and take advantage of them.

Hypothesis

Influence of the Audit Committee on Fraudulent Financial Statements

According to the Financial Services Authority Regulation Number 55 /OJK.04/2015 every company in Indonesia is required to create an audit committee chaired by an independent commissioner. Audit committee members are appointed and dismissed by the board of commissioners. The number of audit committees consists of at least 3 (three) members who come from independent commissioners and parties from outside the Issuer or Public Company. Suripto (2019) stated that with the existence of the board of commissioners forming audit committees in accordance with the needs of the company and applicable laws and regulations, it can effectively assist the board of commissioners in carrying out their responsibilities and authorities.

H1: It is suspected that the audit committee has a negative and significant effect on the Fraudulent Financial Statement

Effect of Financial Stability on Fraudulent Financial Statements

According to *Statement of Auditing Standard* (SAS) No.99 pressure can occur because financial stability is threatened by economic conditions, the industry or the entity. This statement is supported by Skousen et al., (2008) which explains that financial stability occurs when the company is in a period of growth below the industry average, thus making management manipulate financial statements. So it can be concluded that the higher the condition of a company's financial instability, the higher the company's probability of committing financial statement fraud (Tiffani and Marfuah, 2015).

H2: It is suspected that Financial Stability has a positive and significant effect on Financial Statement Fraud

The Effect of Financial Targets on Fraudulent Financial Statement

According to the Statement of Auditing Standard (SAS) No. 99 financial targets are the risk of excessive pressure on management to achieve financial targets set by the board of directors or management, including the objectives of receiving incentives from sales and profits. One of the proxies that can be used to assess the level of profit earned by the company for the business expended is to use Return On Assets (ROA). High ROA is considered capable of generating high profits and vice versa, low ROA is considered low income. Therefore, to be able to achieve the planned profit target, the management is encouraged to commit financial statement fraud so that the financial statements look good and achieve the financial targets that have been set even though the profit generated by the company is low (Nugraheni and Triatmoko, 2017).

H3: It is suspected that the Financial Target has a positive and significant effect on the Financial Statement Fraud

Effect of External Pressure on Fraudulent Financial Statements

According to Statement of Auditing Standard (SAS) No. 99, when excessive pressure from external parties occurs, there is a risk of fraud on the financial statements. This is supported by opinion Skousen et al., (2008) which states that companies often experience pressure from external parties. This pressure is a form of additional debt or external financing sources in order to remain competitive. To be able to detect sources of external financing can use the leverage ratio, this ratio is the ratio between the total liabilities of the company's total assets, therefore companies that have high leverage ratios tend to manipulate earnings information presented in the company's financial statements (Dwiyanti and Astriena, 2018).

H4: It is suspected that External Pressure has a positive and significant effect on Financial Statement Fraud.

The Influence of Nature of Industry on *Fraudulent Financial Statement*

According to *Statement of Auditing Standard* (SAS) No.99 states that opportunities can come from the nature of the company's industry and ineffective internal controls sometimes provide opportunities for companies to commit fraud. The existence of weak supervision in a company can be used by managers to commit financial statement fraud. In the financial statements, there are certain accounts whose balances can be determined by the company determined by an estimate, such as bad debts and inventory accounts (Muranto and Sandara, 2019)

H5: It is suspected that Nature of Industry has a positive and significant effect on *Fraudulent Financial Statements.*

The Effect of Ineffective Monitoring on Fraudulent Financial Statements

According to *Statement of Auditing Standard* (SAS) No.99 explained that ineffective monitoring can occur due to the dominance of management by one person or a small group, and the absence of effective oversight of the financial reporting process, internal control and the like. Rengganis et al, (2019) argues that in order to increase the effectiveness of management supervision, in the selection of independent commissioners the company must choose people who are competent, have high responsibility and loyalty to the company so that they are able to work optimally in carrying out their supervisory functions. One of the factors that can cause fraudulent actions in financial statements to occur is the lack of effective supervision from the company to supervise its employees so that opportunities arise to commit fraud (Lestari and Henny, 2019)

H7: It is suspected that Ineffective Monitoring has a positive and significant effect on the Fraudulent Financial Statement.

Effect of Change In Auditor on Fraudulent Financial Statement

According to *Statement of Auditing Standard* (SAS) No.99 states that there is an effect of changing auditors in the company which can be used as an indication of fraud. Mardianto and Tiono (2019) and Wahyuni and Budiwitjaksono (2017) states that when a company commits fraudulent financial statements, the company can change auditors in order to avoid fraudulent actions that are likely to be discovered by the auditors. Then the change of auditors can provide changes in conditions that can suppress earnings management practices.

H7: It is suspected that the Change in Auditor has a positive effect on the Fraudulent Financial Statement

Effect of Change of Directors on Fraudulent Financial Statement

Wolfe and Harmanson (2004) stated that a change in the board of directors could be an attempt by the company to improve the performance of the previous board of directors by changing the composition of the board of directors or recruiting new directors who are considered more competent than the previous directors. Zulfa and Bayagub (2018) states that a change in the board of directors can be made with the aim of transferring responsibility to the new board of directors through the GMS. Changes in the board of directors are not only aimed at improving performance, but changes in the board of directors that are not in accordance with the provisions will give rise to indications of fraudulent financial reporting.

H8: It is suspected that the Change of Directors has a positive effect on Fraudulent Financial *Statements.*

2. Research Method

This research is quantitative research using secondary data to be used as a source of research data. The population in this study were 52 various manufacturing companies in the various industrial sectors listed on the IDX in 2015-2019. Determination of the sample using purposive sampling technique, obtained a sample of 22 companies with 110 observation data for 5 years.

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Table 1. Stages of Sample Selection With Criteria

No	Criteria	amount	Total
1	Total population of manufacturing companies in various industrial sectors 2015-2019		52
2	Companies that do not publish complete annual financial statements for the 2015-2019 period	(15)	37
3	Companies that publish annual financial statements expressed in Rupiah (Rp).	(15)	22
	Number of companies that match the research criteria		**22**
	Year of observation		**5**
	Total number of samples in the study period		**110**

Source: Data processed by researchers

Data collection techniques in this study used several methods in the data collection process, namely documentation techniques and internet searching on secondary data. The data used is in the form of annual reports of various industrial sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2015-2019

The data analysis technique used consisted of descriptive statistics, panel data regression model selection, classical assumption testing (normality, multicollinearity, heteroscedasticity, autocorrelation), panel data regression analysis, and hypothesis testing. This study uses nine research variables consisting of one dependent variable and 8 independent variables.

Variable Measurement

Fraudulent financial statement

Detection of financial statement fraud in this study is proxied by Earnings Management. Earnings management is not easy to be seen directly, in indicating the occurrence of earnings management in a company, a proxy is needed. As has been done by several previous researchers that earnings management research is proxied by discretionary accruals (Mardiani et al, 2017). In the use of discretionary accruals calculated using the modify Jones Model. The calculation model is as follows:

The value of the total discretionary accrual (DA) of the Jones modified model can be calculated as follows:

$$\textbf{DAit = TACit/Ait-NDAit} \quad \ldots\ldots(1)$$

Total Accrual (TAC it) company i in year t is the difference between the calculation of Net Profit (Niit) and Operating Cash Flow (CFOit). (TAC) is estimated using the following OLS regression equation:

$$\textbf{TACit/Ait-1 = 1(1/Ait-1)+}\boldsymbol{\beta}\textbf{2(}\boldsymbol{\Delta}\textbf{Revt/Ait-1)+}\boldsymbol{\beta}\textbf{3(PPEt/Ait-1)+e} \quad \ldots\ldots(2)$$

By using the regression coefficients listed above, the non-discretionary accrual (NDA) value can be calculated by the formula:

$$\mathbf{NDAit = 1(1/Ait\text{-}1)+\beta 2(\Delta Revt/Ait\text{-}1-\Delta Rect/Ait\text{-}1)+\beta 3(PPEt/Ait\text{-}1)}.........(3)$$

Information:
Dait = Discretionary Accruals of company i in period t
TACit = Total accruals of company i in period t
Niit = net profit of company i in period t
CFO = Cash flow from operating activities of company i in period t
NDAit = Non Discretionary Accruals of company i in period t
Ait-1 = Total assets of company i in period t-1
Δrevt = Change in company i's income in period t
PPEt = Fixed assets of the company in period t
Δrect = Change in receivables of company i in period t
e = error

Audit Committee

The audit committee is a committee appointed by the company as a liaison between the board of directors, external auditors, internal auditors, and independent members, which is tasked with providing audit supervision and ensuring that management takes appropriate corrective actions against the laws and regulations. (Putra, 2019). The measurement of the audit committee according to Kisno and Istianingsih (2018) which is measured by the number of compositions of the audit committee based on the data included.

$$KA = \Sigma \text{Audit Committee Member}$$

Financial Stability

When a company has assets, the higher the asset growth, the greater the company's tendency to commit financial statement fraud (Skousen et al., 2008). The proxy used to measure Financial Stability is the ratio of changes in total assets (ACHANGE)

$$ACHANGE = \frac{\text{Total Assets (t)-Total Assets (t-1)}}{\text{Total Assets (t-1)}}$$

Financial Target

The condition of a company often requires the management to perform the best performance in order to achieve the financial targets that have been determined. This amount can be reflected by profitability or ROA (Skousen et al., 2008). According to Kasmir (2017) profitability is a ratio to assess the company's ability to seek profit

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$$ROA = \frac{\text{Earning After Interest and Tax}}{\text{Total Assets}}$$

External Pressure

External funding sources from creditors are in the form of debt. For companies that are in debt, of course, they will be under pressure to be able to pay off the debt(Sugiyanto et al, 2020). According to Kasmir (2017) Leverage is able to measure how much the company is financed with debt leverage compares liabilities (debt) to total assets.

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

Nature of Industry

In the financial statements there are certain accounts whose account balances are determined by the company based on an estimate and subjective assessment such as bad debts and inventory accounts (Skousen et al., 2008). Nature of industry proxied with the ratio of receivables to sales (RECEIVABLE).

$$REC = \frac{\text{Receivablet} - \text{Sales}}{\text{Receivablet-1} - \text{Sales-1}}$$

Ineffective Monitoring

Is a situation where there is ineffective control of an organization, oversight, or abuse of authority by the board of commissioners. According to Skousen et al., (2008). Ineffective monitoring is measured by proxy (BDOUT), which is the ratio of the number of independent commissioners to the total number of commissioners.

$$BDOUT = \frac{\text{Number of Independent Commissioners}}{\text{Total Number of Board of Commissioners}}$$

Change in Auditor

The measurement of this variable is proxied by using auditor change (AUCHANGE). which is a dummy variable, that is, if there is a change in the auditor, it is given a value of "1" and if there is no change in the auditor, it is given a value of "0"(Yesiariani and Rahayu, 2017).

Change of Directors

The change in directors does not always have a good impact on the company because it could be the company's effort to get rid of directors who are considered aware of fraud committed by the company. The changing conditions of the board of directors provide an opportunity for the new directors to take advantage of the situation (Puspitadewi & Sormin, 2016). The measurement of this variable is proxied by (DCHANGE) which is a dummy variable, namely if there is a change in the board of directors then it is given a value of "1" and if there is no change in the board of directors it is given a value of "0".

3. Result and Discussion

Descriptive Statistical Analysis

Descriptive statistical analysis is explained through the mean, maximum, and minimum values. Based on the results of data analysis using eviews 9, the descriptive statistics in this study are as follows:

Table 2. Descriptive Statistics

	Observation	mean	median	Maximum	Minimum	Std. Dev.
DAit	110	0.000996	0.000533	0.018230	-0.022328	0.006456
KA	110	3.036364	3,000000	4000000	2000000	0.231757
ACHANGE	110	0.093335	0.051629	1.510797	-0.854541	0.270617
ROA	110	0.032883	0.023218	0.716023	-0.391843	0.108829
LEV	110	0.565332	0.489315	3.029086	0.061192	0.417749
REC	110	3.695122	3.732471	3.873732	0.000000	0.359410
BDOUT	110	0.406480	0.333333	0.666667	0.20000	0.115155
AUDCH	110	0.490909	0.000000	1.0000000	0.000000	0.502205
DCHANGE	110	0.518182	1.0000000	1.0000000	0.000000	0.501956

Source: Data processed with Eviews 9

Table 2 shows that the descriptive statistical analysis in this study shows that:

1) The average of companies make fraudulent financial statements of 0.000996. The highest fraudulent financial statement is 0.018230% obtained by the company PT. Star Petrochem (LLC), Tbk in 2019, while the lowest fraudulend financial statement was-0.022328% obtained by the company at PT. Panasia Indo Resources (LLC), Tbk in 2019.
2) The average value of the audit committee is 3,036, which means that all manufacturing companies in the various industrial sectors in 2015-2019 have implemented the Financial Services Authority (*OJK*) regulations where each company has at least 3 audit committees.
3) While the average company doing financial stability is 0.093335. The highest financial stability of 1,510797% was obtained by PT. Primarindo Asia Infrastructure (LLC), Tbk in 2019, while the lowest financial stability of -0.854541% was obtained by the company at PT. Panasia Indo Resources (LLC) Tbk in 2018.
4) On average, the company performs a financial target of 0.032883. The highest financial target of 0.716023% was obtained by PT. Multi Prima Sejahtera (LLC), Tbk in 2017, while the lowest financial target of -0.391843% was obtained by the company at PT. Panasia Indo Resources Infrastructure (LLC), Tbk in 2018.
5) While the average company doing external pressure is 0.565332. The highest external pressure of 3.029086% was obtained by PT. Primarindo Asia Infrastructure (LLC), Tbk in 2019, while the lowest external pressure of 0.061192% was obtained by the company at PT. Prima Alloy Steel Universal (LLC), Tbk in 2019.

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6) The average company doing nature of industry is 3.695122. The highest nature of industry at 3.873732% was obtained by the company PT. Voksel Electric (LLC), Tbk in 2019, while the lowest nature of industry of 0.000000% was obtained by the company at PT. Selamat Sempurna (LLC), Tbk in 2019.
7) Score the average company doing ineffective monitoring is 0.406480. The highest ineffective monitoring is 0.666667%, while ineffective monitoring is 0.666667%. While the company's average change in auditor is 0.490909 while the average change of directors is 0.518182.

Panel Data Regression Model Selection

There are three panel data regression models that can be used to perform panel data regression analysis, namely the common effect model (CEM), the fixed effect model (FEM), and the random effect model (REM). The best model selection method that can be used in panel data regression analysis is obtained by performing three tests, namely the Chow test, Hausman test, and the Lagrange multiplier test.

The results of the panel data regression model selection in this study, namely the Chow test, showed the prob chi-square value was 0.3693 > 0.05, so the estimation model used was the common effect model (CEM). The LM test shows a p value of 0.1569 > 0.05, so the estimation model chosen is the common effect model (CEM). So that in this study the panel data model that was selected was the common effect model (CEM) as the right model to be used as a panel data regression model.

Table 3. Conclusion of Panel Data Regression Model Test

No.	Method	Test	Result
1.	*Test Chow-Test Uji*	*Common effect vs fixed effect*	*common effect*
2.	*Lagrange Multiplier-Test*	*Common effect vs random effect*	*common effect*

Source: Data processed with Eviews 9

Classic assumption test

According to Basuki (2014) in the classical assumption test that can be used in linear regression using the Ordinary Least Squared (OLS) approach that includes normality test, multicollinearity test, heteroscedasticity test and autocorrelation test. However, not all of the classical assumption tests have to be performed on every linear regression model with the OLS approach.

1) The normality test is basically not a requirement for BLUE (Best Linear Unbias Estimator) and there are also several other opinions not to require this condition as something that must be met.
2) Multicollinearity needs to be done when linear regression uses more than one independent variable. If there is only one independent variable, it is impossible for multicollinearity to occur.
3) Heteroscedasticity usually occurs in cross section data, where panel data is closer to the characteristics of cross section data than time series data.

4) Autocorrelation can only occur in time series data. Testing on autocorrelation for data that is not time series (cross section or panel) will be useless or meaningless.

Based on the description above, it can be concluded that not all classical assumptions are used in panel data. In this study, the only test used was the multicollinearity test and the heteroscedasticity test

Multicollinearity Test

Multicollinearity problems can be known or seen from the correlation coefficient of each independent variable. If the correlation coefficient between each variable is greater than 0.8 then multicollinearity occurs (Gozali, 2017)**.** Based on multicollinearity testing with the help of Eviews-9 shows the values for each variable as follows:

Table 4. Conclusion of Panel Data Regression Model Test

	ACHANGE	ROA	LEV	REC	BDOUT	AUDCH	DCHANGE	KA
ACHANGE	1	0.0605	-0.0307	0.0058	0.0349	0.1260	0.0100	-0.1588
ROA	0.0605	1	-0.2710	0.1282	0.0976	-0.0571	0.1832	0.1157
LEV	-0.0307	-0.2710	1	-0.1139	0.2744	0.0015	-0.1796	-0.0734
REC	0.0058	0.1282	-0.1139	1	0.1633	-0.1560	0.0888	-0.0192
BDOUT	0.0349	0.0976	0.2744	0.1633	1	0.0688	-0.1584	-0.0844
AUDCH	0.1260	-0.0571	0.0015	-0.1560	0.0688	1	-0.0007	-0.0760
DCHANGE	0.0136	0.1780	-0.1760	0.0868	-0.1515	-0.0179	1	0.0760
KA	-0.1588	0.1157	-0.0734	-0.0191	-0.0844	0.0760	0.1520	1

Source: *Data processed with Eviews* 9

Table 4 shows that the correlation value between independent variables is < 0.8 so that it can be ascertained that the data is protected from multicollinearity symptoms.

Heteroscedasticity Test

Heteroscedasticity test is a test carried out to determine whether or not there is a variance inequality from the residual panel data regression model (Gozali, 2017)**.** To prove the alleged heteroscedasticity in this study, the researcher used the White test. If the p-value Obs*R-square <0.05, then there is no symptom of heteroscedasticity

Based on heteroscedasticity testing with the help of Eviews-9 the Prob value. in the line Obs*R-squared 0.3840 > 0.05, which means that the data does not show symptoms of heteroscedasticity.

Panel Data Regression Analysis

Based on the selection of the regression model previously carried out, the Common effect model is the most appropriate regression model to be used in this study.

Table 5. Panel Data Regression Analysis *Common Effect Model* (CEM)

Dependent Variable: DAIT
Method: Least Squares Panel
Date: 05/23/21 Time: 01:08
Sample: 2015 2019
Periods included: 5
Cross-sections included: 22
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.012039	0.010514	1.145057	0.2549
KA	-0.002852	0.002653	-1.075116	0.2849
ACHANGE	0.005313	0.002247	2.364764	0.0200
ROA	0.013934	0.005928	2.350501	0.0207
LEV	0.000552	0.001569	0.351563	0.7259
REC	-0.000186	0.001705	-0.108833	0.9136
BDOUT	-0.008426	0.005600	-1.504564	0.1356
AUDCH	-0.000307	0.001209	-0.253522	0.8004
DCHANGE	0.001182	0.001242	0.951100	0.3438

R-squared	0.145681	Mean dependent var	0.000996
Adjusted R-squared	0.078012	SD dependent var	0.006456
SE of regression	0.006199	Akaike info criterion	-7.250662
Sum squared resid	0.003881	Schwarz criterion	-7.029714
Likelihood logs	407.7864	Hannan Quinn Criter.	-7.161044
F-statistics	2.152844	Durbin-Watson stat	1.935320
Prob(F-statistic)	0.037446		

Source: data processed with Eviews-9

Hypothesis testing

Coefficient of Determination Test

Based on the coefficient of determination test in table 5, it is known that the adjusted R-squared value is 0.078012. The adjusted R-squared value is0.078012shows the ability of the independent variables used in this study, namely Audit Committee, Financial Stability, Financial Target, External Pressure, Nature of Industry, Ineffective Monitoring, Change in Auditor, Change of Directors in explaining the dependent variable, namely the Fraudulent Financial Statement of 7.8%, the remaining 92.2% is explained by other variables not examined in this study.

F Test

Based on the panel data regression analysis test in table 5, it is obtained that df1 = k (the number of independent variables plus the dependent variable) - 1, namely 9 - 1 = 8. While df2 = n (amount of data) - k (the number of independent variables plus the dependent variable), namely 110 - 9 = 101, with alpha (α) = 0.05 so that the F-table value is 2.03.
It is known that the value of F_{count} (2.152844) > F_{table} (2.03) and the value of Prob. (F-statistics), which is 0.037446 <0.05, it can be concluded that H9 is accepted where all independent variables are audit committee, financial stability, financial target, external pressure, nature of industry, ineffective monitoring, change in auditor, change of directors simultaneously, has a positive and significant effect on fraudulent financial statements.

t Test

The t-test in this study was carried out with the help of *Eviews*-9 to analyze panel data regression using the Common effect model. The t-test decision making is done by looking at the t_{table} value obtained from the number of variables (k) = 9 and the number of respondents/data (n) = 110, then df = n-k = 101, then the value at a significance level of 0.05 so that the t_{table} value is 1.983731.

Table 6. Influence of the Audit Committee on Fraudulent Financial Statements

Dependent Variable: DAIT
Method: Least Squares Panel
Date: 05/23/21 Time: 01:08
Sample: 2015 2019
Periods included: 5
Cross-sections included: 22
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.012039	0.010514	1.145057	0.2549
KA	-0.002852	0.002653	-1.075116	0.2849

Source: data processed with Eviews-9

Table 6 shows that the audit committee has a regression coefficient value of -0.002852 which is negative with a value of t_{count} (-1.075116) < t_{table} (1.983731) and a significance of 0.2849 > 0.05. This means that the audit committee partially has no effect on the fraudulent financial statement.

Table 7. Effect of Financial Stability Against Fraudulent Financial Statements

Dependent Variable: DAIT
Method: Least Squares Panel
Date: 05/23/21 Time: 01:08
Sample: 2015 2019
Periods included: 5
Cross-sections included: 22
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.012039	0.010514	1.145057	0.2549
ACHANGE	0.005313	0.002247	2.364764	0.0200

Source: data processed with Eviews-9

Table 7 shows that financial stability has a regression coefficient of 0.005313 which is positive with a value of t_{count} (2.364764) > t_{table} (1.983731) and a significance of 0.0200 <0.05. This means that financial stability partially has a positive and significant effect on fraudulent financial statements

Table 8. The Effect of Financial Targets on *Fraudulent Financial Statement*

Dependent Variable: DAIT
Method: Least Squares Panel
Date: 05/23/21 Time: 01:08
Sample: 2015 2019
Periods included: 5
Cross-sections included: 22
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.012039	0.010514	1.145057	0.2549
ROA	0.013934	0.005928	2.350501	0.0207

Source: data processed with Eviews-9

Table 8 shows that the financial target has a regression coefficient value of 0.013934 which is positive with a value of t_{count} (2.350501) > t_{table} (1.983731) and a significance of 0.0207 <0.05.

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This means that the financial target partially has a positive and significant effect on fraudulent financial statements.

Table 9. Effect of External Pressure on *Fraudulent Financial Statement*

Dependent Variable: DAIT
Method: Least Squares Panel
Date: 05/23/21 Time: 01:08
Sample: 2015 2019
Periods included: 5
Cross-sections included: 22
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.012039	0.010514	1.145057	0.2549
LEV	0.000552	0.001569	0.351563	0.7259

Source: data processed with Eviews-9

Table 9 shows that external pressure has a regression coefficient value of 0.000552 which is positive with a value of t_{count} (0.351563) < t_{table} (1.983731) and a significance of 0.7259 > 0.05.. This means that external pressure partially has no effect on fraudulent financial statements.

Table 10. The Influence of Nature of Industry on *Fraudulent Financial Statement*

Dependent Variable: DAIT
Method: Least Squares Panel
Date: 05/23/21 Time: 01:08
Sample: 2015 2019
Periods included: 5
Cross-sections included: 22
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.012039	0.010514	1.145057	0.2549
REC	-0.000186	0.001705	-0.108833	0.9136

Source: data processed with Eviews-9

Table 10 shows that the nature of industry has a regression coefficient value of -0.000186 which is negative with a value of t_{coun}t (-0.108833) < t_{table} (1.983731) and a significance of 0.9136 > 0.05. This means that the nature of the industry partially has no effect on fraudulent financial statements.

Table 11. Effect of Ineffective Monitoring on *Fraudulent Financial Statement*

Dependent Variable: DAIT
Method: Least Squares Panel
Date: 05/23/21 Time: 01:08
Sample: 2015 2019
Periods included: 5
Cross-sections included: 22
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.012039	0.010514	1.145057	0.2549
BDOUT	-0.008426	0.005600	-1.504564	0.1356

Source: data processed with Eviews-9

Table 11 shows that ineffective monitoring has a regression coefficient value of -0.008426 which is negative with a value of t_{count} (-1.504564) < t_{table} (1.983731) and a significance of 0.1356 > 0.05. This means that ineffective monitoring partially has no effect on fraudulent financial statements.

Table 12. Effect of Ineffective Monitoring on *Fraudulent Financial Statement*

Dependent Variable: DAIT
Method: Least Squares Panel
Date: 05/23/21 Time: 01:08
Sample: 2015 2019
Periods included: 5
Cross-sections included: 22
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.012039	0.010514	1.145057	0.2549
AUDCH	-0.000307	0.001209	-0.253522	0.8004

Source: data processed with Eviews-9

Table 12 shows that the change in auditor has a regression coefficient value of -0.000307 which is negative with a value of t_{count} (-0.253522) < t_{table} (1.983731) and a significance of 0.8004 > 0.05. This means that the change in auditor partially has no effect on the fraudulent financial statement

Table 13. Effect of Ineffective Monitoring on *Fraudulent Financial Statement*

Dependent Variable: DAIT
Method: Least Squares Panel
Date: 05/23/21 Time: 01:08
Sample: 2015 2019
Periods included: 5
Cross-sections included: 22
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.012039	0.010514	1.145057	0.2549
DCHANGE	0.001182	0.001242	0.951100	0.3438

Source: data processed with Eviews-9

Table 13 shows that change of directors has a regression coefficient value of 0.001182 which is positive with a value of t_{count} (0.951100) < t_{table} (1.983731) and a significance of 0.3438 > 0.05. This means that the change of directors partially has no effect on the fraudulent financial statement

4. Conclusion

1) The Audit Committee has no effect on the fraudulent financial statement.
   The Audit Committee does not affect the fraudulent financial statement because the existence of the audit committee cannot suppress the occurrence of earnings management behavior. It is suspected that the formation of the audit committee is based only on compliance with regulations, namely the regulations that require companies to have an audit committee.
2) *Financial stability* has positive and significant effect against fraudulent financial statements. Financial stability has a positive and significant effect on fraudulent financial statements because when the assets owned by the company are high, it becomes an attraction for investors. To attract investors, the company's management certainly strives to present the best possible picture of the company through financial statements, one of which is the high value of assets owned.
3) *Financial targets* has positive and significant effect on fraudulent financial statements. Financial targets has a positive and significant effect on fraudulent financial statements because in carrying out activities and in order to achieve the planned profit targets, it will encourage management to carry out earnings management so that the company's financial statements will be presented unfairly if it turns out that the profits generated by the company are low.
4) *External pressure* has no effect on fraudulent financial statements.
   External pressure does not affect the fraudulent financial statement because there is a good relationship between the funder and the company so that high or low leverage cannot be used as an indicator in detecting fraudulent financial statements. Therefore, management no longer

experiences pressure from external parties to be able to repay the debt used to fund the company.

5) *Nature of industry* has no effect on fraudulent financial.
Nature of industry does not affect fraudulent financial because the company conducts earnings management by increasing sales with special parties including sales on credit so that sales profits increase in the period Initial Public Offering (IPO) which can cause investors to be interested in buying shares of the company.
6) *Ineffective monitoring* has no effect against fraudulent financial statements.
Ineffective monitoring does not effect against fraudulent financial statements because the existence of an independent board of commissioners will provide little guarantee that the company's supervision will be more independent and objective and far from the intervention of certain parties. One of the ways to minimize fraud or fraud is by having good supervision. The existence of an independent board of commissioners within a company is a very influential factor in improving the company's operational supervision.
7) *Change in Auditor* has no effect the fraudulent financial statement.
Change in Auditor does not affect the fraudulent financial statement because the change in auditors cannot reduce the possibility of detecting accounting by the auditor. The change of external auditors in the company has no effect on accounting irregularities. This happens because the company's management is used to external auditors who have good and professional performance so that there is a change or not, they still will not commit fraud.
8) *Change of directors* has no effect against fraudulent financial statements.
Change of directors does not affect against fraudulent financial statements because the change of directors of the company is not the main indication that there has been fraudulent financial reporting in the company. This can be due to the change of directors in the sample companies is a routine change, where the new management comes from internal companies, so that the change of directors does not affect financial reporting that contains fraud.

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