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FINANCIAL STATEMENT FRAUD, AUDIT COMMITTEE AND AUDIT QUALITY: INSIGHT INTO FRAUD DIAMOND THEORY

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ABSTRACT

Based on the Fraud diamond theory, the study investigates whether the audit and quality committee can strengthen or weaken financial statement fraud. This study aims to prove the influence of diamond fraud on the potential for financial statement fraud and that the audit and quality committee can strengthen or weaken the effect of diamond fraud on the potential for financial statement fraud. This study sample was selected using the purposive sampling method and obtained 850 observations from 214 companies' sector non-financial listed on Indonesia Stock Exchange from 2016-2019. Furthermore, this study uses secondary data obtained from www.idx.co.id and each company's website. Data analysis in this study using logistic regression. The result of this study indicates that variable financial stability, board change, and financial target positively affect the detection of fraudulent financial statements. In contrast, variable external pressure, ineffective monitoring, and auditor change do not affect the detection of fraudulent financial statements. As the first variable moderating in this study, the audit committee does not affect weakening the relationship between fraud diamonds and fraudulent financial statements. On the other hand, audit quality, as the second moderating variable in this study, weakens the relationship between external pressure and ineffective monitoring of fraudulent financial statements.

INTRODUCTION

Agency theory as a relationship in which one or more people act as principal, with another person acting as an agent to do some things on behalf of the principal that involves delegation to decision-making by the agent. Jensen and Meckling (1979) believe that agents do not always act in the principal's best interests. Agents often have goals that may conflict with the principal's interests.

Due to this difference in interests, it is common for management to commit fraudulent acts to fulfil their wishes. Fraud is a form of dishonesty deliberately to deprive someone or other parties of their rights or property (Arens et al., 2012). The acts of fraud committed by this management take various forms. According to the Association of certified fraud examiners (ACFE), fraud is divided into corruption, asset misuse, and financial statement fraud.

The latest ACFE survey shows that asset misuse is still the most common, accounting for 86% of cases. However, financial statement fraud has the highest loss rate compared to other issues (ACFE, 2014). The ACFE survey shows that financial statement fraud is a form of fraud that needs to be watched out for. Financial reporting fraud accounts for only 10% of the total fraud cases worldwide, with median losses reaching $954,000 annually. Furthermore, company executives and managers are the highest cause of losses from fraud cases that occur in the company. This condition shows that company managers and executives commit fraud to achieve their desire to live prosperous lives.

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In Indonesia itself, there are many cases of financial statement fraud that occur. For example, the Jiwasraya case, which the PWC Public Accountant audited, failed to detect fraud, namely that Jiwasraya made a lot of investments in assets that were claimed to be risky to pursue high returns without regard to the precautionary principle. Thus, the State suffered a loss of 13.7 M in 2018. In addition to the Jiwasraya case, there are still other cases, such as the SNP Finance case and the PT Hanson International case.

Seeing the number of losses caused by financial statement fraud, for this reason, a way is needed to reduce the possibility of management committing fraudulent actions. One of them is by improving internal control. Unfortunately, weak internal control causes 1/3 of the total fraud cases, so increased internal control is necessary. A way that can be used to minimize the risk of fraud is to take preventive measures in the form of supervision of management actions. One form of this supervision is maintenance carried out by the audit committee and audit quality.

The audit committee supervises the preparation of financial statements, reviews financial statements issued by the company, and assesses the results of audit findings from internal and external auditors related to these financial statements. In addition to the audit committee, external auditors also have a role in minimizing management's possibility of committing fraudulent acts. Audit quality is translated as the possibility that an auditor will find and report violations in his client's accounting system.

Looking at the audit committee's and the quality role, it can be concluded that both can weaken the relationship between the factors that drive management to commit acts of financial statement fraud. Based the ACFE survey and cases of fraud in Indonesia, this encourages researchers to look at the factors that enable management to commit financial statement fraud and see how much the influence of control on management can reduce their chances of committing financial statement fraud.

This research uses agency and diamond fraud theories to examine the factors that encourage management to commit financial statement fraud. In addition, this study uses audit committee variables and audit quality as moderation variables to see the effect of control on strengthening or weakening the possibility of management committing fraudulent acts. This research is a replication of the study of Murtanto and Sandra (2019b) and the study of Mardiani (2017), which examined the effect of diamond fraud on financial statement fraud with the audit committee as a moderation variable. However, this research is different from the previous study, namely the addition of 1 moderation variable, namely audit quality and expanding the research sample, namely non-financial companies listed on the Indonesia Stock Exchange.

Based on the motivation and theory used, this study has two questions that will be answered in this study, there are; 1) Does diamond fraud influence the potential for financial statement fraud? and 2) Does the audit committee and audit quality moderate the effect of diamond fraud on the potential for financial statement fraud? Therefore, this study aims to prove the influence of diamond fraud on the potential for financial statement fraud and that the audit and quality committee can strengthen or weaken the effect of diamond fraud on the potential for financial statement fraud.

This study is expected to confirm agency theory and fraud diamond theory about fraudulent financial reporting by companies and provide an understanding of the factors that can influence managers to commit fraudulent financial reporting. The results of this study are also expected to help investors and creditors to be more careful in making decisions by re-analyzing the information presented in the financial statements because the information in the financial statements can be manipulated by managers by utilizing information asymmetry for their personal interests.

Hypothesis Development

Financial Stability and Financial Statement Fraud

The principal or company usually gives incentives or bonuses as a form of appreciation to the manager that provides good performance for the company, and financial stability is the result of good company performance. Financial stability is the desire of interested parties, demonstrated through the company's ability to continue to grow and provide benefits for shareholders. Financial stability can be reflected by the growth of assets, namely an increase in the company's total assets for the current period compared to the company's total assets in the previous period.

Based on agency theory, the motivation to get this bonus makes manager will make various efforts to get the bonus, including committing fraudulent actions. In addition, the opportunistic behaviour of managers, one of which is the manager's desire to live a prosperous life, also motivates the manager to commit fraudulent acts for his benefit (Murtanto & Sandra, 2019a). The pressure of financial stability that squeezes managers will make it difficult for managers to achieve their desire to live a prosperous life. Thus, the pressure of financial stability has encouraged management to commit fraudulent acts. The results of research conducted by Chandra and Suhartono (2020b), Murtanto and Sandra (2019a), Mardiani et al. (2017) found a positive relationship between financial stability and financial statement fraud. Based on this, the first hypothesis in this study is:
H1: Financial stability positively affects the potential for financial statement fraud.

External Pressures and Financial Statement Fraud

Based on agency theory, a debt mechanism is a form of supervision by principals to limit the opportunistic behaviour of managers in using company resources. Funding from debt can put pressure on managers. Under favourable business circumstances, the manager can easily pay off the company's debt to creditors. However, this debt can threaten the manager's position when the company is unstable. Furthermore, demands from third parties, namely creditors, make managers not afraid to commit fraudulent actions, including manipulating the company's financial statements to save their position. The results of research conducted by Ozcelik (2020), Omukaga (2020), Mardiani et al. (2017), and Tiffani & Marfuah (2015). Based on this, the second hypothesis in this study is:
H2: External pressures positively affect the potential for financial statement fraud.

Financial Targets and Financial Statement Fraud

Financial targets are targets that company owners expect to be achieved by company managers in each period. This target can pressure managers if the manager cannot complete the targets the company's owner predicted. The greater the profit value generated in the previous period, the greater the pressure on management because managers must generate more significant profits than those generated during the last period. A decrease in profits or the company causing losses in the current period can threaten the manager's position.

To achieve the profit target, managers will usually be promised to provide bonuses if they can reach the target. Under agency theory (Jensen and Meckling, 1976), managers will do whatever it takes and ignore the interests of principals for personal gain. With the lure of bonuses and the pressure to achieve these financial targets, management often commits fraudulent acts, including manipulating their financial statements. Management will make it seem like the company made a high profit or profit in that period in various ways. Research by Ozcelik (2020), Murtanto and Sandra (2019a), and Mardiani et al. (2017) found a positive relationship between financial targets and fraud in company financial statements. Then the third hypothesis of this study is:
H3: Financial targets positively influence the potential for financial statement fraud.

Ineffective Monitoring and Fraud of Financial Statements

The company's internal control ineffectiveness is one factor that allows agents to commit fraud (Murtanto & Sandra, 2019a). Based on agency theory, managers have more information about the company than principals, so managers can perform actions that only benefit themselves. This condition will happen in the absence of internal controls implemented by the principal to limit management actions. Research by Ozcelik (2020), Murtanto and Sandra (2019a), and Mardiani et al. (2017) found that there is an influence between ineffective monitoring on financial statement fraud.
H4: Ineffective monitoring positively influences the potential for financial statement fraud.

Change of Auditors and Financial Statement Fraud

Based on agency theory, it is necessary to give confidence to users of financial statements regarding the information presented in the financial statements needs an external auditor. External auditors serve to assure users of financial statements that the financial statements have been presented reasonably so that users can use audited financial statements for business decision-making.

Theauditor's decision provides a space for managers to rationalize managers actions to keep cheating and keep evidence of their cheating by making substitutions against auditors who audit their companies. Companies that often make changes to external auditors tend to be suspected of fraud because management tries to cover up the possibility of detecting fraud committed by old auditors (Rahmayuni, 2018). Research by by Ozcelik (2020), Murtanto and Sandra (2019a),found a positive relationship between the change of public accountants and the possibility of financial statement fraud. Based on this, the fifth hypothesis is:
H5: Substitution of Auditors positively influences the potential for financial statement fraud**.**

Change of Board of Directors and Financial Statement Fraud

Cheating will not be realized if there is no right person and the suitable ability to cheat (Wolfe & Hermanson, 2004). Based on agency theory, managers have better information than principals, so managers have the power and ability to perform any action within the company. Research by Wolfie and Hemanson (2004) shows that a change of directors can be a reason for committing fraudulent acts. In addition to having a good side, the board of directors has a bad side.

The change of directors can be suspected of being an attempt by the manager to get rid of the old directors because they are considered to have known the fraudulent actions committed by the manager. Research conducted by Chandra and Suhartono (2020b), Apriliana & Agustina (2017) and Putriasih et al. (2019). The sixth hypothesis of this study is
H6: The change in the Board of Directors positively influences the potential for financial statement fraud.

Audit Committee Moderates the Relationship between Financial Stability and Financial Statement Fraud

The higher the pressure management feels, the higher the likelihood of fraud committed by the manager. The existence of an audit committee will reduce the chances of managers committing fraudulent acts because they are afraid that their actions will be discovered and will impact their position. An audit committee was established to supervise managers' behaviour in preparing financial statements and supervise the company's internal control system (Arens et al., 2012). The supervision activities carried out by the audit committee will make it difficult for management to manipulate profits due to demands for financial stability.
H7: The audit committee weakens the effect of financial stability on the potential for financial statement fraud.

Audit Committee in Moderating the Relationship between External Pressures and Financial Statement Fraud

One of the pressures managers faces the pressure from parties outside the company. The existence of third-party pressure encourages managers to commit fraudulent acts to fulfil the company's responsibilities related to third parties and avoid the possibility of losing positions within the company. In addition, the audit committee established supervises the manager in preparing financial statements.

The audit committee can see the company's potential to commit fraudulent acts of manipulating financial statements so that it cannot fulfil obligations to third parties from related documents and by comparing the compiled financial statements. It can see if the company commits any fraudulent actions by looking at the amount of debt and total assets on the financial statements. This audit committee weakens management's possibility of achieving fraudulent activities due to outside pressure.
H8: The audit committee weakens the influence of external pressures on the potential for financial statement fraud.

Audit Committee in Moderating the Relationship between Financial Targets and Financial Statement Fraud

The audit committee that supervises management in preparing financial statements can see any act of profit manipulation carried out by management. Management, which feared their fraudulent actions would be discovered during an audit by the audit committee, made it more difficult for management to manipulate the

company's profits in that period. The oversight of the audit committee makes it difficult for management to manipulate profits to achieve the financial targets they face.
H9: The audit committee weakens the influence of financial targets on the potential for financial statement fraud.

Audit Committee in Moderating the Relationship between Ineffective Monitoring and Financial Statement Fraud

One factor that encourages management to commit fraudulent acts is the low level of supervision directed at them. The audit committee is to supervise the actions of management in preparing financial statements so that the audit committee will reduce the possibility of management carrying out activities to manipulate financial statements (Murtanto & Sandra, 2019a). The existence of an audit committee within the company will reduce the ineffectiveness of these controls. An audit that performs a supervisory function effectively will reduce the influence of Ineffective monitoring on financial statement fraud.
H10: The audit committee weakens the influence of ineffective monitoring on the potential for financial statement fraud.

Audit Committee in Moderating the Relationship between Auditor Change and Financial Statement Fraud

One of the roles of the audit is to provide recommendations to the board of commissioners regarding appointing a public committee to audit the company's financial statements. One thing that underlies the audit committee's recommendations regarding accountants is independence. Because this change of auditor requires a recommendation from the audit committee, the committee may question the company's reasons for changing the auditor. The audit committee's role weakens the possibility of management committing fraud due to the change of auditors.
H11: The audit committee weakens the effect of changing auditors on the potential for financial statement fraud.

Audit Committee in Moderating the Relationship between Change of Directors and Financial Statement Fraud

The change of directors can allow managers to manipulate financial statement information. This can be hindered if the audit committee performs its duties effectively. Manipulation of financial details carried out by the company during the change of directors will be discovered during the auditing process by the company's internal auditors. The findings of these internal auditors will be submitted to the audit committee so that the audit committee can ask the company to correct these financial statements before the company's external auditors audit them. Thus, the effectiveness of supervision by the audit committee can weaken the possibility of financial statement fraud due to the change in the Board of Directors.
H12: The audit committee weakens the effect of changing the board of directors on the potential for financial statement fraud.

Audit Quality in Moderating the Relationship between Financial Stability and Financial Statement Fraud

External auditors also supervise management actions related to the preparation of financial statements. External auditors checking the company's financial statements for misstatements contained in the company's financial statements can detect the manipulation of financial statements carried out by management due to demands to show financial stability. For this reason, managers will reduce their chances of committing fraudulent acts. The more qualified the audit, the more likely this manipulation can be detected. For this reason, the audit quality will weaken the possibility of management committing fraudulent actions in financial statements.
H13: Audit quality weakens the effect of financial stability on the potential for financial statement fraud

Audit Quality in Moderating the Relationship between External Pressures and Financial Statement Fraud

Auditors who have a function to bridge the relationship between users of financial statements and the company, including the interests of creditors, will check the company's financial statements as well as possible. The larger the KAP, the more quality the audit provided. For this reason, the possibility of fraud committed by management related to external pressure can be minimized because management is afraid to commit fraudulent actions. Therefore, the quality of audits can weaken the possibility of management committing fraudulent activities due to external pressure.

H14: Audit quality weakens the effect of financial stability on the potential for financial statement fraud.

Audit Quality in Moderating the Relationship between Financial Targets and Financial Statement Fraud

The quality of the audit can weaken the possibility of management committing fraud. Alves (2013) states that the more qualified the audit, the less likely management is to perform profit management. Auditors from KAP big four will carry out quality audit procedures so that they will detect the possibility of profit manipulation. Thus, the audit quality weakens the case of management committing acts of financial statement fraud.

H15: Audit quality weakens the effect of financial targets on the potential for financial statement fraud.

Audit Quality in Moderating the Relationship between Ineffective Monitoring and Financial Statement Fraud

In preparing his audit opinion, the auditor assesses the company based on the company's financial statements and also considers the company's internal controls. Auditors can act as supervisors related to management actions in preparing financial statements. Thus, management's possibility of committing financial statement fraud due to a lack of supervisors will be minimized. The more qualified the audit, the more likely the auditor is to disclose financial statement fraud because the audit procedures are of higher quality.

H16: Audit quality weakens the influence of ineffective monitoring on the potential for financial statement fraud.

Audit Quality in Moderating the Relationship between Auditor Turnover and Financial Statement Fraud

A quality audit will be more likely to find financial statement fraud. Auditors will report their findings to the audit committee regarding fraud committed by management on published financial statements. For this reason, if management changes the auditor, the audit committee can question the management's decision and ask the auditor why they were replaced. If there are any discrepancies, the audit committee may request the results of the audit findings based on the audit procedures the auditor has implemented. In addition, qualified auditors will leave records of irregularities in the company's financial statements to the audit committee to be forwarded to the new auditor. Therefore, the audit quality weakens the possibility of changing auditors to the possibility of financial statement fraud.

H17: Audit quality weakens the effect of auditor turnover on the potential for financial statement fraud.

Audit Quality in Moderating the Relationship between Change of Directors and Financial Statement Fraud

Auditors who carry out audit procedures can find fraud committed by management while changing directors. Auditors can notice this discrepancy based on audits in previous periods if there is a significant change in the information in the company's financial statements. The more qualified the audit, the more likely it is to find these discrepancies and irregularities. The less likely management is to commit fraudulent actions due to a change of directors.

H18: Audit quality weakens the effect of auditor turnover on the potential for financial statement fraud.

Based on the description of the hypothesis development above, the research model in this study is as follows:

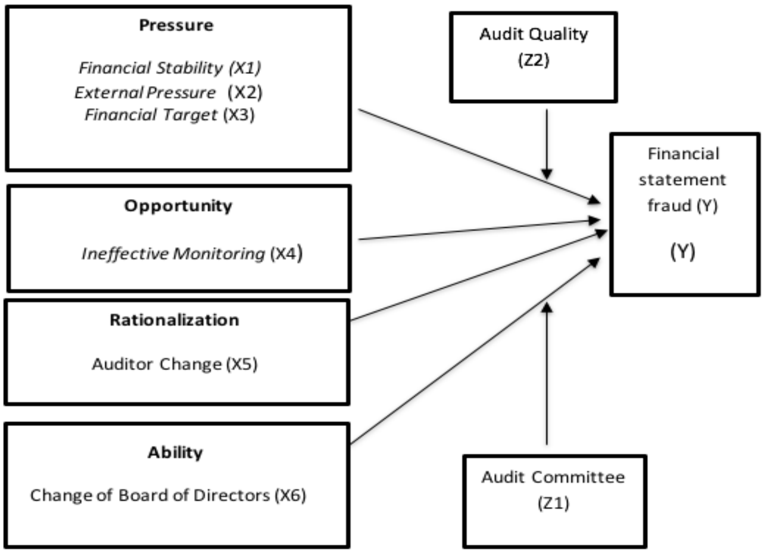

Figure 1. Research Model

METHODS

Methods of Selection and Data Collection

The sample in this study is non-financial companies listed on the Indonesia Stock Exchange in 2016-2019 that meet the established criteria, namely:

1) The company's financial statements and annual reports from 2016-2019 are available on the website and can be accessed.
2) Using rupiah currency.
3) The company that presented the information used to measure the variables used in this study were assets, liabilities, profits, the number of independent commissioners, the name of the external auditor and the KAP, the name of the president director, and the number of audit committee meetings.

Operational Definition and Measurement of Variables

Dependent Variables

The dependent variable in this study is report fraud, which is a form of dishonesty committed by management by changing the information in the financial statements for personal gain. Financial statement fraud variables were measured using the Beneish M-Score (Beneish,1999):

Table 1. Beneish M-Score Measurements

Element	Variable	Proxy
Beneish M-Score	Days Sales Receivable Index	DSRI = (Receivables $_t$ – sales $_t$)/ (Receivables $_{t-1}$ – sales $_{t-1}$)
	Gross Margin Index	GMI = $\frac{\text{Sales}_{t-1} - \text{COGS t-1} / \text{Sales}_{t-1}}{\text{Sales}_t - \text{COGS t} / \text{Sales}_t}$
	Asset Quality Index	AQI = $\frac{1 - (\text{Current asset}_t + \text{net fixed asset}_t) / \text{Total asset}_t}{1 - (\text{Current Asset}_{t-1} + \text{net fixed Asset}_{t-1}) / \text{Total Asset}_{t-1}}$
	Sales Gross Index	SGI = $\frac{\text{Sales t}}{\text{Sales}_{t-1}}$
	Depreciation Index	DEPI = $\frac{[\text{Depreciation}_{t-1} / (\text{PPE t-1} + \text{Depreciation}_{t-1})]}{[\text{Depreciation}_t / (\text{PPE}_t + \text{Depreciation}_t)]}$
	Sales General Administration Index	SGAI = $\frac{\text{SGA}_t / \text{Sales}_t}{\text{SGA}_{t-1} / \text{Sales}_{t-1}}$
	Leverage Index	LEVI = $\frac{[(\text{Current liabilities}_t + \text{total long term debt}_t)/\text{Total assets}_t]}{[(\text{Current liabilities}_{t-1} + \text{total long term debt}_{t-1})/\text{Total assets}_{t-1}]}$
	Total Accrual to Total Asset	TATA = $\frac{(\text{Income from operating t} - \text{cash flow from using t})}{\text{Total Asset}_t}$
M-Score = -4.84 + 0.920DSRI + 0.528GMI + 0.404AQI + 0.892SGI + 0.115DEPI - 0.172SGAI - 0.327LEVI + 4.679TATA		

The company is indicated to have cheated if the Beneish M-Score value > -2.22 or 2.22 and will be assigned a code of 1. On the other hand, the company is not indicated to be cheating if the Beneish M-Score value < -2.22 or 2.22 and the company is assigned a code of 0 (Emalia et al., 2020).

Independent Variables

Independent variables in this study consist of financial stability, external pressures, financial targets, ineffective monitoring, auditor changes, and board of directors' changes. The measurement of independent variables is described in Table 2.

Table 2. Definitions and Measurements of Independent Variables

Variable Name	Definition and Measurement
Financial stability	$\text{ACHANGE} = \frac{(\text{Total Asset t} - \text{Total Asset t} - 1)}{\text{Total Aset t} - 1}$
External pressure	$\text{Lev} = \frac{\text{Total Liabilitas}}{\text{Total Aset}}$
Financial targets	$\text{ROA} = \frac{\text{Laba bersih}}{\text{Total Aset}}$
Ineffective monitoring	$\text{BDout} = \frac{\text{Total Dewan Komisaris Independen}}{\text{Total Dewan Komisaris}}$
Substitution of auditors	A value of 1 is given if there is a change of auditor, and a value of 0 is given if there is no change of auditor.
Change of directors	A value of 1 is given if the company changes its board of directors and is given a value of 0 if the company does not change the board of directors.

Moderation Variables

The Moderation Variable in this study consists of an audit committee and audit quality. Komite audit is a committee established by and responsible to the board of commissioners. The audit committee is measured based on the number of meetings held each year. Audit quality is the possibility that an auditor will find and report violations that are in his client's accounting system Audit quality is measured using a dummy variable, a value of 1 for a company audited by a Big 4 KAP and given a value of 0 if a Non-Big 4 KAP audits the company.

Data Analysis

The analytical methods used in this study are the binary regression logistics method and the absolute value difference method. The logistic regression method is used to see the probability of direct influence between independent variables on dependent variables. The logistic regression models used in this study are:

$$\ln\frac{p}{1-p} = \alpha + \beta_1 \text{Achange it} + \beta_2 \text{Lev it} + \beta\ 3\ \text{Roa it} + \beta_4 \text{Bdout}_t + \beta_5\ \text{AUDChange}_{it} + \beta_6 \text{DIRChange}_{iy} + e \quad ..\ (1)$$

Information:

$\ln\frac{p}{1-p}$	: Financial Statement Fraud
α	**:** Constants
β	**:** Regression Coefficient
Achange	: Financial Stability
Lev	: External pressure
Roa	: Financial targets
Bdout	: Ineffective Monitoring
AudChange	: Auditor turnover
DirChange	: Change of directors

The absolute value difference method is used to see the indirect influence between independent variables on dependent variables by being moderated by moderation variables.

To test audit committee moderation variables

$$\ln\frac{p}{1-p} = \alpha + \beta_1 Zachange + \beta_2 Zlev + \beta_3 ZROA + \beta_4 ZBDout + \beta_5 ZAUDChange + \beta_6 ZDIRChange + \beta_7 ZAUDCom + \beta_8 |ZAchange - ZAUDCom| + \beta_9 |ZLev - ZAUDCom| + \beta_{10} |ZROA - ZAUDCom| + \beta_{11} |ZBDout - ZAUDCom| + \beta_{12} |ZAUDChange - ZAUDCom| + \beta_{13} |ZDIRChange - ZAUDCom| + e \quad \text{...... (2)}$$

To test audit quality moderation variables

$$\ln\frac{p}{1-p} = \alpha + \beta_1 ZAchange + \beta_2 Zlev + \beta_3 ZROA + \beta_4 ZBDout + \beta_5 ZAUDChange + \beta_6 ZDIRChange + \beta_7 ZAUDQ + \beta_8 |ZAchange - ZAUDQ| + \beta_9 |ZLev - ZAUDQ| + \beta_{10} |ZROA - ZAUDQ| + \beta_{11} |ZBDout - ZAUDQ| + \beta_{12} |ZAUDChange - ZAUDQ| + \beta_{13} |ZDIRChange - ZAUDQ| + e \quad \text{..... (3)}$$

Information:
Zachange: Standardize financial stability
Zlev: Standardize external pressure
ZROA: Standardize financial targets
ZBDout: Standardize Ineffective Monitoring
ZAUDChange: Standardize auditor turnover
ZDIRChange: Standardize change of directors
ZAUDCom: Standardize audit committee
ZAUDQ: Standardize quality audit

RESULTS

Based on the established criteria, a research sample that met the requirements of 214 non-financial companies with 850 observations was obtained. The number of this sample came from the total research population of 1828 observations from 457 companies, minus the number of observations that did not meet the research criteria, namely financial statements could not be obtained, using foreign currency, delisted, and did not have complete research data as many as 972 observations from 243 companies. Therefore, the number of observations was 856 companies from 214 companies. In addition, six observations were classified as grey areas, bringing the total observations to 850.

Based on table 3, the average company used as a sample experienced asset growth of 11.11%, which shows the company's financial stability. But the growth of these assets puts pressure on managers because managers must continue to produce asset growth every period. The higher the growth of assets, the greater the pressure management faces to maintain that growth and increase its growth every period. The average Leverage of sample companies is 45.42%, indicating that the average company has total assets financed by debt of 45.42%. The higher the leverage value, the greater the pressure management faces from third parties. This pressure is based on expectations from third parties to get a return on the investments they make within the company.

The average financial target average value of 0.0449 shows that the companies sampled in this study produced an average profit of 4.49% of the total assets owned. Thus, the company is considered effective in managing company assets because it can generate profits in the form of profit. However, this profit puts pressure on managers because managers must continue to make profits by utilizing the company's assets. Therefore, the greater the profit the company generates, the greater the target the company owner expects from the company's management in the next period.

The Ineffective Monitoring variable shows an average value 0.40 of 10, indicating that the average company has a 40.10% independent board of commissioners from the entire board of commissioners owned by the company. This result shows that parties also supervise the average company from outside the company or independent parties. The existence of an independent board of commissioners manages management's actions in preparing the company's financial statements. It gives confidence that the board of commissioners in carrying out their duties is not influenced by the company because there is an independent board of commissioners.

The average audit committee has an average value of 7.5682, indicating that the company conducts an audit committee meeting 7-8 meetings a year. This value is relatively high with what is required in the OJK regulations regarding the establishment and guidelines for the implementation of the work of the audit committee, which requires the audit committee to hold meetings at least four times a year

Table 3 for dummy variables in this study shows that for 850 observations that made auditor changes, there were 384 observations from 210 companies or 45.2 % of total observations. Variable Change of Directors in this study showed that there were 1 60 observations from 97 companies or 18.2% of the total observations for those who changed directors in the period that occurred. Audit quality variables (AUDQTY) Based on table 4.3d 850 observations, there were 32 8 observations from 90 companies or 38.6% of the total observations, which were companies audited by KAP Big 4. There were as many as 52 2 observations from 139 companies, or 61.4% of the total observation, a company audited by KAP Non-Big 4.

Statistical Test Results

Table 3. Overall Fit Model Test Results

Prediction Models	**Type**	**-2 Likehood Logs**	**Chi-Square (Omnibus Test Coefficient 6 Varaiables)**	**Df**	**Sig.**
Regression Model	Intercept Only	1073.081			
	Final	1043. 647	29.434	6	0.000

Based on Table 3, the logistic regression results for the prediction model from the Beneish M-Score on the initial model (-2 log-likelihood intercept only) showed a value of 1073,081, and in the final mode (-2 log-likelihood final) showed a value of 1043. 647. It can be concluded that this decrease in value indicates that the overall model used is a fit.

Table 4. Hosmer And Lemeshow Goodness Of Fit Test Results

Step	Chi-square	Df	Sig.
1	9.722	8	. 285

This test's results show that the chi-square's significance value is 0.285 greater than 0.05, so the null hypothesis is accepted, and the hypothesized model fits the data. Thus, the research model proposed in this study is feasible and acceptable to continue hypothesis testing.

Table 5. Coefficient of Determination Test Results

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	1043,647	0.034	0.047

Based on the coefficient of determination test results in table 6 above, the value of nagelkerke's R square in the prediction model is 0.047. This shows that the independent variables in this study can explain 4.7% of the dependent variables, and the rest is clarified by other variables that are not included in the regression.

Table 6. Classification Table Test Results

Prediction Models		**Non-Fraud**	**Fraud**	**Percentage**
	Non-Fraud	558	15	97.4 %
Beneish M-Score	Fraud	260	17	6.1 %
	Overalls			67.6 %

Table 6 for the Beneish M-Score model has a classification table of 6 7.6%. The classification table for companies indicated not to have committed fraud was 97.4%. Of the 573 observations classified as not cheating, based on the classification table, 558 observations indicated not cheating, and as many as 15 observations committed fraud. Meanwhile, the Classification table for companies revealed to have committed fraud was 6.1%. Of the 277 observations indicated to have committed fraud based on the classification table, 260 companies were detected as not committing fraud, and only 17 were revealed to have committed fraud.

Test Results of the Direct Effect of Independent Variables on Dependent Variables

Table 7. Direct Influence Test Results

Variable	Koef.	Sig.	Result
Financial stability	1.073	.001	**H_1Accepted**
External Pressure	.217	. 519	H_2 Declined
Financial Targets	1.757	.027	**H_3 Accepted**
Ineffective Monitoring	-1.159	.109	H_4 Declined
Auditor Change	.207	.168	H_5 Declined
Change of Board of Directors	. 367	.048	**H_6 Accepted**
Constant	-.740	.026	

Based on Table 7 shows that three variables have a significance value of less than 0.05, namely the variables of financial stability, financial targets and change of directors have a level of significance, so it can be concluded that these three variables influence the variables of financial statement fraud.

A variable of financial stability has proven to affect financial reporting fraud positively. For example, suppose the company's ethics are threatened with financial stability due to economic, industrial, and also operational factors of the company. In that case, managers will commit fraud by manipulating the number of assets they have. The management carries out this act of manipulation to save their position from the threat of losing their job. This result is strengthened by descriptive statistical results that show that the growth of company assets indicated to have committed fraud is two times compared to companies suggested not to have committed fraud.

The growth of these assets puts pressure on management to continue producing asset growth every period so that management is required to continue to perform well for the company. The decline in asset growth or the non-achievement of asset growth as in the previous period shows the financial instability experienced by the company. This condition will make management questionable in its ability, so it can threaten the position of management within the company. This threat encourages management to take any action, including committing financial statement fraud.

External pressures have proven not to influence the potential for financial statement fraud. This result shows that despite the pressure from third parties reflected in Leverage, it does not make management commit financial statement fraud. Based on the study's results, the average leverage value of the companies sampled shows that less than half of the company's total assets are financed using debt. Thus, companies have the confidence to pay the debts they get from third parties. Also, management can manage the debts they get in the form of company assets to improve company operations without committing financial statement fraud.

Financial targets variable has been shown to influence the potential for financial statement fraud positively. The existence of profits generated by the company by utilizing the company's assets in the current period will put pressure on managers for the next period. The company owner will demand the manager to make a higher profit than the profit generated in the previous period. Managers who failed to achieve such a profit as in the last period could lose their jobs. Meanwhile, managers who successfully achieve the financial targets set by the company will get bonuses from the company owner. For this reason, managers who experience pressure to make higher profits make management compelled to act for personal interests, namely by committing financial statement fraud by manipulating the amount of profit they get so that the company is considered to generate higher profits than the previous period.

The test results showed that the ineffective monitoring variable did not influence the potential for financial statement fraud. The independent board of commissioners has not been able to prevent managers from committing financial statement fraud. The existence of an independent board of commissioners is only a way for management to comply with regulations from the Indonesia Stock Exchange, which require companies to own at least 30% of the existing board of commissioners. Thus, the existence of an independent board of commissioners may not necessarily prevent the possibility of management committing acts of financial statement fraud. The presence of an independent board of commissioners is an action taken by the company to assure outside parties that the supervision carried out by the management in the preparation of financial statements is independent and objective.

The variable of auditor turnover based on the test results has been shown not to influence the potential for financial statement fraud. The change of auditors was initially suspected to be a way for managers to remove traces of fraud known to the company's auditors. However, from the results of tests conducted by researchers, obtaining the impacts of changing auditors is not a way of rationalization carried out by management to commit fraudulent acts. The change of auditors is not an action taken by management to dispose of evidence of fraud they committed, but rather an action was taken by management to obtain auditors who are more objective and independent in auditing their company's financial statements or because of auditors who resign from their positions as external auditors of the company.

Variable change of directors has proven to affect the potential for financial statement fraud positively. The change in the board of directors indicates fraudulent actions committed by the company's management related to the company's financial statements. The difference between directors is the ability carried out by management to get rid of the board of directors who are aware of fraudulent actions and loopholes to put their people on the board of directors of the company. Thus, the change of directors provides an opportunity or opportunity for fraud in the future. This opportunity arises because the change of directors is considered capable of showing the ability to manage stress. Management can use this change to commit fraudulent actions because this change of directors makes management's performance ineffective. The new directors need time to achieve fraudulent activities so that they can be used by company management to commit financial statement fraud actions.

Test Results of the Effect of Audit Committee Moderation Variables and Audit Quality

Table 9 shows the test results of the interaction between the independent variable (X) and the dependent variable (Y) moderated by the audit committee (Z1).

Table 8. Results of the Effect of Audit Committee

Variable	Koef.	Sig.	Information
Z_Financial Stability	.317	.021	
Z_External Pressure	.026	.768	
Z_Financial Target	.183	.058	
Z_Ineffective Monitoring	-.148	.136	
Z_Auditor Change	.092	.259	
Z_Change of Board of Directors	.176	.114	
Z_Audit Committee	.089	.598	
Int_X1Z1	-.015	.918	H_7 Inreject
Int_X2Z1	.040	.736	H_8 Inreject
Int_X3Z1	-.005	.960	H_9 Inreject
Int_X4Z1	.064	.595	H_{10} Inreject
Int_X5Z1	.014	.926	H_{11} Inreject
Int_X6Z1	-.063	.639	H_{12} Inreject
Constant	-.793	.000	

Based on Table 8, it is concluded that the audit committee cannot moderate the relationship between diamond frauds, against financial statement fraud. The test results prove that the audit committee cannot weaken the effect of financial stability on financial statement fraud. The audit committee is considered ineffective in performing a manager's supervisory function in preparing financial statements so that the audit committee cannot see any fraud committed by the manager in the financial statements related to the amount of assets owned by the company. As a result, the audit committee that oversees the management's actions may not be aware of any fraud committed by management.

The test results showed that the audit committee was proven not to weaken the influence of external pressure on Financial Reporting Fraud. The audit committee, which has a role in supervising management, is considered unable to function effectively related to management supervision in preparing financial statements. As a result, the audit committee cannot see any fraud committed related to the amount of debt and the amount of company assets so that management can be free to achieve fraudulent actions without fearing being known by the audit committee.

The study's results proved that the audit committee did not weaken the influence of financial targets on financial statement fraud. When management or employees within the company commit fraud due to pressure to achieve the targets set by the company, the audit committee may not be able to realize the existence of this fraud. Managers do various ways to make the profit they earn in this period seem to be the actual profit. Internal auditors who are employees within the company are unaware or unable to disclose the fraud that occurred. Internal auditors who examine the company's financial statements assume the increase in profits generated by the company results from good manager performance in the period. Thus, the audit committee could not find fraud due to financial targets.

This research also did not succeed in proving that audit committees can weaken the influence of ineffective monitoring on financial statement fraud**.** One of the causes of fraud is the low level of supervision on managers so that managers can commit fraudulent acts without being noticed by any party. Moreover, the audit committee only ensures that the financial statements made by management follow financial reporting regulations and do not function as supervisors for management's daily activities, so they cannot guarantee that the information in the financial statements is correct.

The tests conducted in this study showed that the audit committee was proven not to weaken the influence of auditor turnover on financial statement fraud. The audit committee is unlikely to discover loopholes that managers exploit to commit acts of financial statement fraud through the change of auditors. Although the audit committee provides recommendations regarding the appointment of external auditors, the audit committee may be fooled by the change of auditors made by managers. Managers can reason that the company's change of auditors is a step toward obtaining a more independent auditor. So the audit committee did not realize that this change of auditors was taken by management to cover up fraud or dispose of evidence of fraud they committed.

This study provides evidence that the audit committee did not weaken the board of directors' decision against the rigging of financial statements. The change of directors can be a loophole used by managers to commit financial statement fraud, namely to get rid of directors who are aware of their fraudulent actions and how to decide by putting their people in the company. Likewise, the manipulation of financial information carried out by the manager during the change of directors can be known during the auditing of financial statements by the company's internal auditors, which will be reported to the audit committee. However, the audit that serves to prevent the occurrence of fraudulent acts did not succeed in finding evidence of the fraud because it is likely that the evidence has been lost or hidden by people placed by management on the board of directors.

Table 9 shows the test results of the influence of the independent variable (X) on the dependent variable (Y), with audit quality (Z2) as the moderation variable. The results show that the quality of audits can weaken the influence of external pressures and ineffective monitoring of financial statement fraud.

Table 9. Test results of the influence of the independent variable (X) on the dependent variable (Y), with audit quality (Z2) as the moderation variable

Variable	Koef.	Sig.	Information
Z_Financial Stability	.323	.020	
Z_External Pressure	-.025	.773	
Z_Financial Target	.242	.007	
Z_Ineffective Monitoring	-.263	.006	
Z_Auditor Change	.129	.094	
Z_Change of Board of Directors	.107	.232	
Z_Audit Quality	-.252	.015	
Int_X1Z2	-.006	.968	H_{13} Rejected
Int_X2Z2	.224	.022	**H_{14} Accepted**
Int_X3Z2	.070	.545	H_{15} Inreject
Int_X4Z2	.249	.021	**H_{16} Accepted**
Int_X5Z2	-.074	.370	H_{17} Inreject
Int_X6Z2	.083	.453	H_{18} Inreject
Constant	-1.356	.000	

This study found that the quality of audits does not weaken the effect of financial stability on financial statement fraud. Despite the quality of the audit, the auditor may not succeed in finding any fraudulent actions committed by the manager due to pressure to stabilize the company's finances. The reputation of the KAP cannot be a guarantee to weaken the possibility of financial statement fraud. The reputation of the KAP only shows that auditors from the Big 4 KAP will tend to be more careful in auditing the company's financial statements because they are trying to maintain the reputation of their KAP. The auditor who checks the company's financial statements cannot find any irregularities in the company's total assets, so the management who committed the fraud they committed will not be known by the audit conducted by the external auditor.

The results of testing external pressures show that the quality of audits has proven to be able to weaken the influence of external forces on the potential for financial statement fraud. External auditors as a liaison between the company and users of financial statements, especially third parties who expect the company's performance, namely investors and creditors. Investors and creditors will find it easier to invest in a company audited by the KAP, judging by its reputation, because they assure that the financial statements that the company has made have been free from material misstatements by carrying out more detailed and careful audit procedures. In addition, this audit procedure ensures that any proof of transaction has been thoroughly vetted, as auditors from the Big 4 KAP will tend to try to keep their KAP name.

The test results of the following audit quality moderation variable show that the audit quality is proven not to weaken the influence of financial targets on the potential for financial statement fraud. Based on the theory, the more qualified an audit is seen from the reputation of the KAP, the more it guarantees that the financial statements made by the company are free from material misstatements, including the potential for fraud. However, based on the tests carried out, although there are quality audits seen based on the reputation of the KAP, managers who have become accustomed to working with professional auditors have found a way to increase the company's profits that cannot be considered an act of fraud by external auditors. Thus, external auditors cannot see the potential for this fraud in the financial statements they audit. Therefore, the reputation of the KAP cannot guarantee the company is free from fraud.

The quality of audits has been shown to weaken the effect of ineffective monitoring on financial statement fraud. This situation is because the audit procedure not only checks the company's financial statements but also checks the company's internal control system. The more qualified an audit is viewed based on the reputation of the KAP, the stricter the audit procedures carried out. So that supervision of management behaviour in preparing financial statements is also the basis seen by external auditors. Auditors from Big 4 KAP tend to have more careful and detailed audit procedures because big four auditors do not want their KAP reputation to be damaged if they cannot prevent fraud committed by management. Thus, audit quality can take the role of management supervisor so that the possibility of fraud management will engage in its financial statements tends to be reduced.

The results of subsequent tests proved that the audit quality was proven not weaken the change of auditors against financial statement fraud. Companies audited by KAP big four do not guarantee that management does not commit acts of financial statement fraud. Management audited by KAP Big 4 can change auditor before the auditor of KAP Big 4 successfully realizes the financial statement fraud they committed. This action is taken by management to save their position because they fear that the disclosure of this fraud can provide opinions other than WTP for the company's financial statements that could threaten their position. Thus, the quality of the audit cannot prevent management from committing fraudulent actions.

The audit has been shown not to weaken the effect of changing directors on financial statement fraud. The change of directors can be a manager's action to eliminate directors who have performed poorly for the company. In addition to finding new directors to improve the company's performance, the change of directors is also a way for management to put their people in the company. However, external auditors who audit the company's internal controls do not see this change of directors as an act that can weaken the company's internal control and view this change as a way for the company to improve the company's performance or because of the resignation of the board of directors. For this reason, a quality audit is also considered not to weaken the possibility of management committing fraud in the company's financial statements.

CONCLUSION

This research successfully proves that factors in diamond fraud, such as pressure, opportunity, rationalization, and capability, can influence financial reporting fraud. This study provides conclusions that: (1)

tariables of financial stability, financial targets, and change of directors have proven to have a positive effect on the potential for financial statement fraud, (2) variables of financial targets, ineffective monitoring, and auditor turnover have proven to have no positive effect on the potential for financial statement fraud, (3) the audit committee has not been shown to weaken the influence of financial stability, external pressures, financial targets, ineffective monitoring, change of auditors, and change of directors on the potential for financial statement fraud, (4) audit quality is proven to weaken the influence of external pressures and ineffective monitoring on the potential for financial statement fraud, and (5) audit quality is not proven to weaken the influence of financial stability, financial targets, auditors, and directors' changes on the potential for financial statement fraud.

This research can confirm agency theory and fraud diamond theory related to financial reporting fraud committed by companies. The results of this study can be a consideration for investors and creditors in decision making, investors and creditors should be able to re-analyze the information presented in the financial statements because managers can manipulate information in the financial statements if managers experience pressure from company owners and are a form of ability of managers by utilizing information asymmetry to commit fraud for their personal interests.

The limitations of this study are; (1) The ability of variables to explain independent variables is still small at only 4.7%, and the rest is explained by other variables not tested in this study, and (2) Using dummy measurements for the variables of auditor turnover, board of directors turnover, and audit quality makes these variables less broad in meaning because it is difficult to interpret the values 1 and 0 of the dummy variable results.

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