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INVESTIGATING THE EFFECTIVENESS OF INDEPENDENT COMMISSIONERS IN REDUCING FRAUD HEXAGON-INDUCED FINANCIAL STATEMENT FRAUD

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Abstract
This paper analyzes the relevance of the Fraud Hexagon framework in understanding financial statement fraud within publicly listed Indonesian property and real estate companies. Specifically, six explanatory variables are analyzed: financial stability, education and professional experience, political connections, industry characteristics, auditor turnover, and management ownership. In addition, the role of independent commissioners is evaluated as a moderating variable. Using the Beneish M-Score model, this study examines 25 companies for indicators of fraud from 2019 to 2023. The results show that industry nature and management ownership are the main drivers of financial statement fraud, while financial stability, education, experience, political connections, and auditor turnover do not show a significant influence. Having independent commissioners is demonstrated to effectively reduce the influence of industry characteristics and management ownership on financial statement fraud. These results point to the significance of strong corporate governance, particularly through the role of independent commissioners, to prevent misleading financial reporting practices.
Keywords : Independent Commissioners, Financial Statement Fraud, Fraud Hexagon, Corporate Governance, Moderating Effect.

INTRODUCTION

The deliberate distortion of financial information by a company's management or other associated individuals to make the financial reports appear different from the actual situation is what constitutes financial statement fraud. The objectives can vary, for example, to make the company's performance look better in order to attract investors, obtain loans from banks, or meet certain targets that benefit internal parties (Omeir et al., 2023). Such fraudulent activities may manifest in various forms, including revenue manipulation (Novatiani & Afiah, 2022), asset overstatement (Marais et al., 2023), debt concealment (Mukhibad et al., 2021), balance sheet misrepresentation (Mousavi et al., 2022), improper expense recognition, unfair accounting practices (Imhof et al., 2022), violations of accounting rules and regulations (Chandio et al., 2021), and other forms of information distortion (Arifaj et al., 2023). Financial statement fraud is detrimental because it misguides investors, creditors, regulatory authorities, and other stakeholders, leading to distorted decision-making (Siregar et al., 2023). Preventing and detecting financial statement fraud is critically important for safeguarding the financial markets' integrity (Diah et al., 2023). Several elements of the Fraud Hexagon include: (a) Financial stability, is a company's capacity to balance its income and expenses while also having enough cash on hand to pay its debts on time (Ali et al., 2023); (b) Education and working experience, which are closely related to an individual's capability. These two dimensions are complementary in shaping one's overall professional competence (Yarana, 2023); (c) Political connection, defined as the condition in which shareholders or top executives currently hold or have previously held positions in governmental institutions, or maintain close relationships with political authorities (Alsmady, 2022); (d) Nature of industry, which reflects the inherent characteristics of certain industries that allow firms discretion in determining the size and estimation of specific financial statement accounts (Azeem et al., 2023); (e) Change in auditor, is the act of replacing the external auditor or accounting firm that audits a company's financial records (Shbeilat, 2024); and (f) Managerial ownership,

refers to corporate managers or executives holding company shares, which ties their personal wealth directly to the firm's performance (Sampong et al., 2021).

Independent commissioners occupy an important position in the corporate governance structure because they act independently of the influence of management and controlling shareholders (Junus et al., 2022). This independence helps to assess management decisions objectively, thereby acting as a watchdog that ensures corporate transparency and accountability (Achmad et al., 2023). With effective oversight mechanisms, including the involvement of independent commissioners, companies can minimize the risk of fraudulent practices and maintain operational integrity and financial reporting. This study focuses on measuring the effectiveness of such oversight in reducing fraud in the corporate environment.

Research Problem

There are multiple influences on financial statement fraud, including those related to individuals, the company itself, and the broader external environment. This study adopts the Fraud Hexagon, a framework that includes six variables that have the potential to encourage fraud as independent variables to analyze the main causes of fraud. Meanwhile, independent commissioners are included as moderating variables because they play a strategic role in oversight and can influence the relationship between the factors causing fraud and the occurrence of fraud itself.

This research focuses on two main issues. First, it seeks to determine whether the factors classified within the Fraud Hexagon framework including “financial stability, education and work experience, political connections, industry characteristics, auditor turnover, and management ownership” significantly influence financial statement fraud practices. In other words, this study assesses whether these factors are potential causes of fraud. Second, the study aims to assess whether the presence of independent commissioners acts as a moderating variable. This means we're examining if they can change or weaken the link between what causes fraud and how much fraud occurs.

State-of-the-Art and Research Novelty

The primary purpose of this research is twofold. It first empirically analyzes the direct effect of several Fraud Hexagon factors on fraudulent financial reporting. The study then evaluates the moderating role of independent commissioners, assessing how they can alter the relationship between these factors and financial statement fraud.

This research stands out by combining an analysis of fraud factors with the role of independent oversight. By using moderation regression, the study reveals how independent commissioners can help mitigate the direct influence of fraud-causing factors. Theoretically, these findings are expected to enrich the literature on corporate governance and internal control. This study's findings are a useful tool for companies looking to reinforce their control mechanisms. Utilizing independent commissioners more effectively can help curb financial statement manipulation, boost corporate transparency and accountability, and ensure that stakeholders continue to have faith in the organization.

REVIEW LITERATURE AND HYPOTHESES

Agency Theory

In modern organizational structures, company owners (principals) do not usually manage the company on a day-to-day basis. Therefore, they appoint managers or professionals (agents) to run the company's operations on their behalf. Agency theory helps explain this relationship, including how responsibilities and risks are divided between principals and agents. Jensen and Meckling (1976) emphasizes that this relationship can be analyzed using a game theory approach, in which contracts between principals and agents are designed to minimize conflicts of interest and ensure that agents act in accordance with the principals' objectives.

Based on this definition, agency theory emphasizes the division of roles and responsibilities between company owners (principals) and managers or professionals appointed to manage the company (agents). Since principals are not always involved in daily operations, they formally authorize agents to manage the business through contracts. This contract aims to ensure that agents make optimal decisions in the interests of the principals, such as maximizing company value or shareholder profits.

Fraud Theory

Fraud, according to the ACFE (2020), occurs when someone uses their position or authority in a company to gain personal benefit by deliberately exploiting the company's assets or resources. Fraud Hexagon theory enriches our understanding of the factors that cause fraud. This framework previously emphasized pressure, opportunity, and rationalization as triggers for fraud. The element of collusion, defined as cooperation between two or more parties, was also identified as a crucial factor that can heighten the risk of fraud in financial statements. Vousinas (2019) emphasizes that collusion represents a novel element that plays a critical role in encouraging individuals or groups to manipulate financial reports.

Financial Statement Fraud

A company's financial statements serve as key documents that illustrate its financial performance and standing for a given time frame. The information presented helps interested parties assess the financial condition and make appropriate decisions, for example, regarding investment, financing, or resource management. According to (Sérgio et al., 2022), emphasizing that financial reports are not merely recording tools, but also strategic instruments that help stakeholders understand the strengths and weaknesses of the company, as well as plan appropriate actions to achieve organizational goals.

In accounting practice, fraud or negligence in financial reporting occurs when the information presented is deliberately manipulated to give a better picture than the actual condition of the company. Examples include overstating revenue or assets to make the company look more profitable, or underestimating costs and liabilities so that the company's risks and obligations appear lower. As a result, stakeholders may make wrong decisions based on inaccurate information (Yarana, 2023).

The ACFE, (2020) fraud tree framework is used to understand the various forms of fraud in financial statements. The act of intentionally altering or manipulating financial statements to show a false representation of a company's condition is defined as fraud. The purpose of this manipulation is to obtain benefits, either directly or indirectly, such as enhancing the company's reputation or attracting investors. This type of fraud often arises from discrepancies between accounting records and the company's real economic activities. One common motive is to avoid high tax liabilities, typically by manipulating revenue through the recognition of fictitious sales. This initial manipulation frequently leads to subsequent fraudulent actions and may escalate into further misstatements aimed at concealing the original fraud.

Fraud Hexagon Model

To gain a broader insight into the drivers of financial statement fraud, the Fraud Hexagon theory was developed, which incorporates and expands upon existing theories that focus on pressure, opportunity, rationalization, and capability, Sari et al. (2022) emphasize the importance of collusion, which is cooperation between two or more parties in committing fraud. The presence of collusion increases the risk of financial statement manipulation because it is more difficult to detect than fraud committed individually. Collusion is considered a central factor in many complex and detrimental fraud cases. It is defined as an illicit agreement between two or more parties to act deceitfully for mutual benefit, often at the expense of organizational integrity and public trust.

The Fraud Hexagon consists of six key elements, which are described as follows:

Pressure

Pressure refers to the motivation that drives individuals to commit fraudulent acts. In this context, pressure is proxied by financial stability. When a company's stability is jeopardized by a weak economy, industry problems, or operational issues, its management might be more inclined to manipulate financial statements to portray a better financial standing (Sari et al., 2022). The hypothesis can therefore be stated in the following way:

H1: *"Financial stability has a significant effect on financial statement fraud"*

Capability

Wolfe and Hermanson suggest that fraud is improbable without the right skills, which are demonstrated by an individual's education and professional background. A report from (ACFE, 2020) indicates a connection between the educational level of those who commit fraud and the amount of money lost. Moreover, the longer an individual is employed within an organization, the greater the potential financial loss resulting from fraudulent behavior (Odukoya & Samsudin, 2021).

H2: *"Educational background and professional experience have a significant impact on financial statement fraud"*

Collusion

According to Vousinas, collusion refers to cooperative actions undertaken by multiple parties, either among individuals within an organization or between internal and external organizational actors. Collusion is often proxied by political connection, which represents a collaborative relationship between firms and government entities (Achmad et al., 2022). The larger the scale of a firm's collaborative projects with the government, the greater the potential for the firm to generate financial gains.

H3: *"Political connections influence financial statement fraud"*

Opportunity

The opportunity concept in fraud theory posits that fraud can only happen if conditions, such as poor internal controls or a convoluted industry structure, are favorable. Industry-specific traits like high competition, market volatility, or loose regulation can also create an environment ripe for fraud. In this way, the operational and competitive characteristics of an industry signal a company's chance to engage in financial statement manipulation. A company operating under favorable industry conditions is more likely to gain competitive and financial advantages (Sham et al., 2023).

H4: *"Industry characteristics influence financial statement fraud"*

Rationalization

Rationalization refers to the process by which individuals committing fraud seek to justify their unethical behavior. This act is believed to occur when perpetrators perceive a need to obtain personal or organizational benefits from their misconduct, thereby legitimizing their fraudulent actions in their own view (Suryani & Fajri, 2022). This rationalization is proxied by auditor change. It is believed that an auditor with a long-standing relationship with a company is better equipped to detect potential fraud by management.

H5: *"Auditor change influences financial statement fraud"*

Ego/Arrogance

A study conducted by the Committee of Sponsoring Organizations (COSO) found that 70% of fraud cases involve a combination of pressure and an attitude of arrogance or greed. Arrogance is proxied by managerial ownership, which reflects a sense of superiority held by certain individuals, leading them to believe that they can override or dominate the internal control systems of the organization (Mohd et al., 2022).

H6: *"Managerial ownership influences financial statement fraud"*

Moderating Hypotheses by Independent Commissioners

Beyond the direct variables, independent commissioners are also seen as playing a moderating role in the connection between the Fraud Hexagon elements and financial statement fraud. Independent commissioners are thought to be key in improving the oversight of potentially unethical management practices.

H7: *"Independent commissioners moderate the relationship between financial stability and financial statement fraud"*

H8: *"Independent commissioners moderate the relationship between education and work experience and financial statement fraud"*

H9: *"Independent commissioners moderate the relationship between political connections and financial statement fraud"*

H10: *"Independent commissioners moderate the relationship between industry characteristics and financial statement fraud"*

H11: *"Independent commissioners moderate the relationship between auditor change and financial statement fraud"*

H12: *"Independent commissioners moderate the relationship between managerial ownership and financial statement fraud"*

RESEARCH METHODS

The quantitative approach focuses on the collection and analysis of numerical data, enabling systematic hypothesis testing. With this method, researchers can measure the strength of relationships, the direction of influence, and the significance between the variables being studied. Quantitative methods also allow the use of statistical techniques, such as regression or correlation, to obtain objective and generalizable conclusions, in contrast to qualitative methods, which emphasize a deeper understanding of non-numerical phenomena.

Additionally, moderated panel regression analysis helps assess how a third variable influences the relationship between the independent and dependent variables (Sudarmanto et al., 2022; Isma et al., 2024). By using purposive sampling, the researchers selected only companies and data that fit specific requirements, making sure the study's findings were relevant and accurate for the research questions.. The data analyzed is secondary, meaning that it already exists and was collected previously, in this case obtained from official sources such as www.idx.co.id, so that its accuracy and reliability can be ensured. The use of EViews 12 software facilitates statistical analysis and efficient interpretation of panel data.

Dependent Variable

To gauge a company's potential for financial reporting fraud, this study uses the Beneish M-Score model as its dependent variable. The M-Score, based on a composite of eight financial ratios, is a standard tool for detecting earnings manipulation. A higher score points to a greater chance of financial statement fraud.

Table 1. Operationalization of the Dependent Variable

Variable	Indicator(s)	Measurement / Formula	Scale	Source

Financial Reporting Fraud	Potential manipulation of financial statements measured through financial ratios as per Beneish Model	The Beneish M-Score formula, used to detect potential earnings manipulation, is "M - Score = -4.84 + 0.920×DSRI + 0.528×GMI + 0.404×AQI + 0.892×SGI + 0.115×DEPI − 0.172×SGAI + 4.679×TATA − 0.327×LVGI."	Continuous	Beneish (1999); Skousen et al. (2009)
	M-Score > -2.22 indicates potential manipulation	Interpretation: - M > -2.22 → Possible manipulator - M ≤ -2.22 → Non-manipulator	Dummy (0/1)	Beneish (1999)

Independent Variables

Based on existing research and established theoretical principles, this study has identified six independent variables that are assumed to influence the chances of financial reporting fraud: financial stability, education and work experience, political connections, nature of the industry, auditor switching, and managerial ownership. These variables are operationalized using proxy indicators that allow for empirical testing through statistical analysis.

Each variable is measured based on established methodologies from relevant prior studies and is quantified to enable rigorous hypothesis testing.

Table 2. Operationalization of Independent Variables

Variable	**Indicator / Proxy**	**Measurement / Formula**	**Scale**	**Key References**
Financial Stability	Risk of bankruptcy	The Altman Z-Score formula is expressed as the sum of $1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$	Continuous	Altman (1968); Skousen et al. (2009)
Education and Work Experience	Academic background and years of professional experience	Dummy variable: 1 = Director with graduate degree and >5 years of experience; 0 = Otherwise	Dummy (0/1)	Agustia et al. (2020)
Political Connections	Existence of political ties	Dummy variable: 1 = Presence of board member with political affiliation; 0 = None	Dummy (0/1)	Faccio (2006); Wahyuni & Ratnadi (2019)
Nature of the Industry	Industry sensitivity to regulation and manipulation	Dummy variable: 1 = High-risk industry (e.g., finance, mining, construction); 0 = Low-risk industry	Dummy (0/1)	Skousen et al. (2009); Sun et al. (2011)
Auditor Switching	Change in external auditor	Dummy variable: 1 = Auditor changed in the reporting year; 0 = No change	Dummy (0/1)	Lin & Hwang (2010); Agustia et al. (2020)
Managerial Ownership	The fraction of shares owned by corporate leadership	The percentage of total shares owned by directors and executives	Ratio (%)	Jensen & Meckling (1976); Yuliana (2020)

Notes:

- A low Altman Z-Score signals financial instability and a greater chance of bankruptcy.

- Political connections are assessed based on prior or current roles in political institutions.
- Auditor switching is often viewed as a red flag in fraud detection literature.
- High-risk industries are typically identified using Standard Industry Classification (SIC) codes or based on previous empirical classifications.

Moderating Variable

Following Sugiyono (2023), a moderating variable changes the relationship between other variables. This study uses the presence of independent commissioners as a moderator to assess how their oversight role influences the link between our independent variables and financial reporting fraud.

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

Sampling Method

In this study, the population of focus is all property and real estate companies listed on the IDX between 2019 and 2023. However, not all companies in the population are relevant for analysis, so purposive sampling was used to select the sample. Purposive sampling is a sampling technique based on specific considerations or predetermined criteria, such as the availability of complete financial data or company characteristics that are relevant to the research objectives.

The sample consists of property and real estate companies that meet the following criteria: listed on the IDX from 2019 to 2023, have complete and consistent annual reports, earn profits, and provide all relevant data.

Data Analysis Method

After researchers have gathered all data from surveys or other sources, they engage in a systematic process of data analysis. As Baltagi (2021) notes, this process is key to identifying patterns and relationships in the data, which are necessary for hypothesis testing and creating models:

1. Descriptive Statistical Analysis

Before doing inferential analysis, descriptive statistics are used to summarize a dataset's main features. This analysis includes indicators like mean and median, which are essential for understanding the data's distribution and central tendency.

2. Panel Data Regression Estimation

Panel regression techniques analyze data that combine observations across units and time, helping address heterogeneity and increasing efficiency. In practice, researchers may choose between pooled OLS, fixed effects, or random effects. The pooled model assumes uniformity across units and periods, fixed effects account for differences across units by allowing unique intercepts, and random effects treat variations as random and uncorrelated with explanatory variables.

Panel Regression Model Selection Techniques

To get valid and unbiased results in panel data regression, you must choose the right estimation model. This selection process, which uses three statistical tests, is built on the foundation of a hypothesis, which (Baltagi, 2021) defines as a testable prediction about the relationship between variables.

Selecting the best model involves three stages. First, the Chow Test compares Common and Fixed Effects, opting for Fixed Effect if $p < 0.05$. Next, the Hausman Test chooses between Fixed and Random Effects, with Fixed Effect preferred for p-values under 0.05. Finally, the LM Test identifies the suitability of Common versus Random Effects, favoring Random Effects when the p-value is less than 0.05.

Classical Assumption Tests

Classical assumption testing is a fundamental statistical requirement in regression analysis, particularly when employing the Ordinary Least Squares (OLS) approach. The analysis involved two classical assumption tests, namely:

1. Multicollinearity Test

The test detects strong linear correlations among independent variables. Multicollinearity is assessed using VIF, where values below 10 show no serious issue.

2. Heteroscedasticity Test

This procedure evaluates constant variance in residuals. A random scatter without patterns suggests no heteroscedasticity.

Hypothesis Testing

To evaluate variable relationships, hypothesis testing was carried out. Three forms of tests were employed:

1. F-Test (Simultaneous Test)

The F-test assesses the joint impact of predictors on the outcome. A significant statistic means the model improves fit compared to a model with no predictors.

2. Coefficient of Determination (R^2)

R^2 measures the portion of variation in the dependent variable accounted for by the predictors. A larger value reflects better model fit.

3. t-Test (Partial Test)

This test examines the individual impact of predictors on the outcome, identifying those with significant effects while controlling for others.

RESULTS AND DISCUSSION

Sample and Data Collection

Data was gathered from a sample of 25 companies that fulfilled specific criteria over a five-year period. This resulted in 125 total observations (25 companies multiplied by 5 years), which served as the foundation for the analysis. This sample size was chosen to be both representative of the industry and practical to manage, with the goal of producing accurate results that reflect the state of the property and real estate sector during the study period.

Panel Data Regression Estimation

Panel data is created by observing the same group of companies over a number of different time periods. It merges cross-sectional data (data from multiple companies) with time-series data (data collected over time) into a single, comprehensive dataset. Regression analysis using panel data is usually carried out using three main approaches:

1. Common Effect Model (CEM)

CEM is the simplest method, which combines cross-company and cross-time data without considering the unique characteristics of each company.

2. Fixed Effect Model (FEM)

FEM assumes that the variable coefficients are the same for all entities, but allows for different intercepts for each company, thereby controlling for unobserved differences between companies.

3. Random Effect Model (REM)

REM accounts for variation between companies and over time through an error component, assuming that company-specific effects are random and uncorrelated with the independent variables.

Model Selection Procedure

The Chow ($p < 0.05$) and Hausman ($p < 0.05$) tests consistently support FEM as the best model for estimation, outperforming CEM and REM. Although the Breusch–Pagan Lagrange Multiplier test ($p > 0.05$) suggests otherwise, FEM is still chosen because the results of other tests are more dominant. As a next step, the validity of the FEM model will be tested using classical assumptions.

Multicollinearity Test

Results from EViews 12.0 indicate that none of the predictors exceed a 0.8 correlation, confirming the absence of multicollinearity in the panel regression model.

Heteroskedasticity Test

With a Breusch-Pagan LM p-value of 0.0889 (> 0.05), the null hypothesis is retained, suggesting constant variance in the residuals.

Hypothesis Testing

The following presents findings from panel regression hypothesis tests, examining how independent variables directly and indirectly influence financial statement fraud.

Dependent Variable: MSCORE
Method: Panel Least Square
Date: 05/24/24 Time: 19:16
Sample: 2019 2023
Periods Include: 5
Cross-section included: 25
Total panel (balanced) observations: 125

Variable	Coefficient	Std.Error	t-Statistic	Prob.
C	-6.804901	8.719721	-0.780404	0.4373
FSP	-9.507849	7.009518	-1.356420	0.1785
EW	56.79080	30.30451	1.874005	0.0643
PC	-1.584357	3.088893	-0.512921	0.6093
NOI	11.60757	4.948305	2.345767	0.0213
CIA	-2.497277	1.447043	-1.725779	0.0879
MO	-24.43900	11.16563	-2.188771	0.0313
BDOUT	6.907937	18.96670	0.364214	0.7166

FSP*BDOUT	20.66492	15.68534	1.317467	0.1911
EW*BDOUT	-133.2257	70.53687	-1.888738	0.0623
PC*BDOUT	4.755353	7.037470	0.675719	0.5010
NOI*BDOUT	-19.13268	8.886389	-2.153032	0.0341
CIA*BDOUT	5.006595	3.329502	1.503707	0.1363
MO*BDOUT	64.75843	24.18779	2.677319	0.0089
Effects Specification				
Cross section fixed (dummy variables)				
R-squared	0.632596	Mean dependent var		-2.354023
Adjusted R-squared	0.476344	S.D. dependent var		2.414134
S.E. of regression	1.746965	Akaike info criterion		4.199232
Sum Squared resid	265.5142	Schwarz criterion		5.059039
Log likelihood	-224.4520	Hannan-Quinn criter.		4.548526
F-statistic	4.048562	Durbin-Watson stat		1.767033
Prob(F-statistic)	0.000000			

F-Test

With F = 4.0486 > 0.95496 and p < 0.05, the results indicate the independent variables jointly influence financial statement fraud.

Coefficient of Determination (R^2 Test)

An Adjusted R^2 of 0.4763 suggests that 47% of the changes in financial statement fraud are explained by the included independent variables.

t-Test (Partial Test)

Financial stability has no significant impact on financial statement fraud, as shown by t = -1.3564 and p = 0.1785.

The influence of education and working experience on financial statement fraud is not significant, indicated by t = 1.8740 < t-table and p = 0.0643 > 0.05.

The influence of political connections on financial statement fraud is not significant, with t = -0.5129 and p = 0.6093.

Results show that the industry type significantly influences financial statement fraud, confirmed by t = 2.3458 and p = 0.0213.

The effect of auditor changes on financial statement fraud is not significant, as indicated by t = -1.7258 and p = 0.0879.

Managerial ownership significantly and negatively affects financial statement fraud, as shown by t = -2.1888 and p = 0.0313 (< 0.05).

Moderation Test of Independent Commissioners

The relationship between financial stability and financial statement fraud is not moderated by independent commissioners, as shown by t = 1.3175 and p = 0.1911

The relationship between education and work experience and financial statement fraud is not moderated by independent commissioners, indicated by t = -1.8887 and p = 0.0623.

The relationship between political connections and financial statement fraud is not moderated by independent commissioners, as shown by t = 0.6758 and p = 0.5010.

The relationship between the nature of the industry and financial statement fraud is significantly moderated by independent commissioners, confirmed by t = -2.1530 and p = 0.0341.

The relationship between auditor switching and financial statement fraud is not moderated by independent commissioners, as indicated by t = 1.5037 and p = 0.1363.

The relationship between managerial ownership and financial statement fraud is significantly moderated by independent commissioners, as shown by t = 2.6773 and p = 0.0089.

DISCUSSION

The results of testing the Financial Stability variable show that this variable does not have a significant effect on Financial Statement Fraud. In other words, a company's level of financial stability cannot be confirmed as a determining factor in the occurrence of fraudulent practices in financial statements. These findings indicate that even though a company has relatively stable financial conditions, this does not guarantee that the company is free from the risk of financial statement manipulation. Conceptually, these results can be interpreted to mean that financial statement fraud is not always triggered by financial pressure or internal economic instability within a company.

The results of testing the variables of Education and Work Experience show that these variables do not have a significant effect on Financial Statement Fraud. This means that the level of formal education and professional experience of company executives does not automatically prevent fraudulent financial reporting practices. Although executives with high qualifications and extensive experience are usually considered more competent in managing companies, these results show that these factors alone are not sufficient to reduce the risk of fraud. These findings emphasize that executive competence and experience are not the only elements that determine the integrity of financial reporting. Therefore, companies need to strengthen their internal control and monitoring mechanisms, rather than relying solely on executive qualifications and experience.

Testing of the Political Connections variable also showed insignificant results for Financial Statement Fraud. This indicates that the connection of a company or its executives with political parties does not directly increase or decrease the risk of fraudulent practices in financial statements. In other words, the existence of political connections does not guarantee that a company will be more transparent or, conversely, more vulnerable to financial statement manipulation. From a theoretical perspective, these findings suggest that the influence of political relationships may be indirect or dependent on other factors, such as regulation, external oversight, or internal management integrity. This means that although political connections may provide certain access or advantages, this variable alone is not sufficient to predict manipulative behavior in financial reporting. Companies still need to emphasize transparency, accountability, and strengthening internal control systems to minimize the risk of fraud.

The test results show that the Industry Characteristics variable has a significant effect on Financial Statement Fraud. This means that the inherent characteristics of a particular industry can influence the risk of financial statement manipulation. Some industries may face higher competitive pressures, complex regulations, or high market volatility, encouraging companies to commit fraud in order to maintain their image or financial performance. These findings emphasize the importance of considering industry when assessing fraud risk. Companies in high-risk industries may require stricter internal oversight and more sophisticated control mechanisms to prevent manipulative practices. In addition, regulators and investors also need to pay attention to industry characteristics when evaluating company financial statements.

Testing of the Auditor Rotation variable showed insignificant results on Financial Statement Fraud. This indicates that auditor rotation alone is not sufficient to reduce the risk of financial statement manipulation. Although auditor rotation can help bring a new perspective and prevent the formation of overly close relationships between auditors and management, this factor does not automatically guarantee improved financial statement integrity. From a risk management perspective, these findings emphasize that external oversight through auditor rotation needs to be complemented by strong internal controls. Companies cannot rely solely on auditor rotation as the only preventive mechanism, but must integrate oversight, a culture of compliance, and accountability mechanisms to reduce the risk of fraud.

The test results show that the Management Ownership variable has a significant negative effect on Financial Statement Fraud. This means that the higher the level of management ownership in a company, the lower the risk of financial statement manipulation. This condition occurs because management who owns shares in the company tends to pay more attention to the interests of shareholders and the integrity of financial statements, so that there is a stronger alignment of interests. Implicitly, these findings highlight the importance of ownership structure in reducing fraudulent practices. Greater management ownership can serve as an incentive to act ethically and maintain transparency in reporting. Therefore, companies and regulators may consider management ownership as one factor in governance design to minimize the risk of financial statement fraud.

The test results show that Independent Commissioners do not moderate the relationship between Financial Stability and Financial Statement Fraud. This means that the existence of independent oversight neither strengthens nor weakens the influence of financial stability on the likelihood of financial statement manipulation. In other words, even if a company has independent commissioners, the level of financial stability remains unaffected by such oversight in the context of fraud prevention.

The test results show that Independent Commissioners do not moderate the relationship between Education and Work Experience with Financial Statement Fraud. This finding indicates that the presence of independent commissioners is unable to increase or limit the impact of executive qualifications and experience on fraudulent reporting practices. This means that the level of education and management experience remains insignificant in preventing fraud, even with independent oversight.

The test results also show that Independent Commissioners do not moderate the relationship between Political Connections and Financial Statement Fraud. This means that independent board members are unable to reduce the potential influence that political connections may have on financial statement manipulation practices. Thus, the existence of political connections can still potentially influence reporting behavior, regardless of the supervision carried out by independent commissioners.

The test results show that Independent Commissioners significantly moderate the relationship between Industry Characteristics and Financial Statement Fraud. This indicates that the presence of independent commissioners can strengthen governance mechanisms in industries that are more vulnerable to fraudulent practices, thereby reducing the likelihood of financial statement manipulation. This means that independent oversight plays an effective role in reducing the risk of fraud in certain industrial sectors with more complex or high-risk characteristics.
The test results show that Independent Commissioners do not moderate the relationship between Auditor Change and Financial Statement Fraud. This finding implies that despite independent oversight, auditor rotation or replacement has no significant impact on preventing fraudulent practices. This means that the effectiveness of independent commissioner oversight is not sufficient to change the influence of auditor replacement on manipulative behavior in financial reporting.
The test results show that Independent Commissioners significantly moderate the relationship between Managerial Ownership and Financial Statement Fraud. This indicates that the presence of independent commissioners can enhance the positive effects of managerial ownership, thereby strengthening the alignment of management interests with shareholders and reducing the risk of fraudulent practices. Thus, the combination of high managerial ownership and independent oversight plays an important role in preventing financial statement manipulation.

CONCLUSIONS

Based on the analysis results, several factors such as Industry Nature and Managerial Ownership were found to have a significant effect on Financial Statement Fraud, while the variables of Financial Stability, Education and Work Experience, Political Connections, and Auditor Change did not show a significant effect. The presence of Independent Commissioners has been proven to effectively moderate the relationship between Industry Characteristics and Managerial Ownership with fraud, but does not play a role in other variables. The implication is that companies need to strengthen their governance mechanisms, particularly through independent supervision and increased managerial ownership, to reduce the risk of financial statement manipulation, while also adjusting control strategies in line with industry characteristics to make supervision more effective.

LIMITATIONS

The research faces limitations, such as a lack of literature on the examined variables, especially moderation, and a reduced sample because numerous property and real estate companies on the BEI from 2019 to 2023 either did not release annual reports or reported losses.

Suggestions for Further Research

Future research could include additional independent variables that may have a stronger impact on financial statement fraud. Increasing the sample size beyond 25 companies is recommended for more accurate results, and studying sectors outside property and real estate could provide a broader comparison of financial statement fraud on the Indonesia Stock Exchange, potentially extending the observation period.

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