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Earnings Management, Financial Stability, and Corporate Governance: Assessing the Drivers of Financial Statement Fraud in Indonesian Manufacturing Firms

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Abstract

This study aims to analyze the influence of earnings management, financial stability, and good corporate governance on financial statement fraud in manufacturing companies listed on the Indonesia Stock Exchange during the 2022–2024 period. Good corporate governance is proxied by the board of commissioners, the audit committee, and managerial ownership. The study employs a quantitative method with a causal-associative research design. The population consists of 279 manufacturing companies listed on the Indonesia Stock Exchange. A sample of 74 companies was selected using purposive sampling, resulting in 222 observations. Secondary data obtained from the companies' financial statements and annual reports were used. Data analysis was conducted using logistic regression. The results indicate that earnings management influences financial statement fraud. Meanwhile, financial stability, the board of commissioners, the audit committee, and managerial ownership do not influence financial statement fraud. These findings suggest that earnings management practices can increase the likelihood of financial statement fraud, whereas financial stability and good corporate governance mechanisms proxied by the board of commissioners, the audit committee, and managerial ownership do not significantly affect the tendency for financial statement fraud in manufacturing companies.

Keywords: Earnings Management, Financial Stability, Good Corporate Governance, Financial Statement Fraud.

1 INTRODUCTION

An efficient capital market can only be realized if market participants have access to accurate, relevant, and reliable financial information. This information serves as the primary basis for investors, creditors, and other parties to assess a company's condition and prospects [1]. In general, financial reports aim to present information regarding a company's financial position, budget realization, cash flows, and financial performance. However, in practice, not all financial reports reflect the true situation. Management pressure to demonstrate strong performance to investors often leads to manipulation in the presentation of financial reports.

According to [2], financial statement fraud accounts for only 5% of reported cases but results in an average loss of US$766,000 per case. A fraud case involving PT Indofarma Tbk (INAF) and its subsidiaries in Indonesia resulted in losses amounting to IDR 371.8 billion. Common fraudulent practices include revenue inflation, the deferral of operating expense recognition, and the manipulation of asset valuations, all aimed at presenting a positive financial image [3].

One factor suspected of triggering fraud is earnings management. Earnings management refers to a company's efforts during the preparation of financial statements to make estimates or adjustments to earnings in order to maintain stability [4]. This practice can give rise to conflicts of interest between management and shareholders due to information asymmetry, thereby creating the potential for financial statement fraud [5].

In addition to earnings management, financial stability is another factor that can influence the likelihood of financial statement fraud. Financial instability can create pressure on management to maintain the company's image through the manipulation of financial statements [6]. Conversely, the implementation of Good Corporate Governance (GCG) proxied by the board of commissioners, the audit committee, and managerial ownership—can strengthen oversight functions, thereby reducing the opportunity for financial statement fraud [7].

Although various studies have examined the relationship between earnings management, financial

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stability, and Good Corporate Governance and financial statement fraud, the results of prior research remain inconsistent.[7], [8], [9]; some studies show that earnings management, financial stability, and good corporate governance influence financial statement fraud, whereas [10], [11], and [12] indicate that earnings management, financial stability, and good corporate governance do not affect financial statement fraud. These divergent results suggest that the relationship between these factors and financial statement fraud lacks consistent empirical support. However, the inconsistency in research findings alone does not explain whether the differences stem from company characteristics, the observation period, variable measurement, or the oversight mechanisms employed. Therefore, this study needs to situate prior findings within the context of the differing variables and measurement methods used, in light of the evidence available from previous research.

Based on this empirical gap, this study examines the impact of earnings management, financial stability, the board of commissioners, the audit committee, and managerial ownership analyzed individually in relation to financial statement fraud among manufacturing companies listed on the Indonesia Stock Exchange during the 2022–2024 period. Unlike approaches that treat Good Corporate Governance as a single, aggregate variable, this study disaggregates governance mechanisms into three distinct proxies: the board of commissioners, the audit committee, and managerial ownership. This separation enables a more specific analysis of the roles played by each mechanism regarding oversight and the alignment of interests. Furthermore, these factors are examined alongside earnings management and financial stability to gain a comprehensive understanding of how financial reporting practices, financial conditions, and governance structures relate to financial statement fraud. Consequently, this study aims to provide additional empirical evidence regarding the factors associated with financial statement fraud in Indonesian manufacturing companies during the observed period.

2 LITERATURE REVIEW

2.1 Agency Theory

Agency theory explains the agency relationship established through a contract between a principal and an agent, which can give rise to conflicts of interest due to information asymmetry. This asymmetry stems from divergent interests between the two parties and an imbalance of information where the agent possesses greater access to information than the principal thereby creating the potential for conflicts of interest [13].

2.2 Financial Statement Fraud

Financial statement fraud is an intentional act involving the falsification, alteration, or omission of information in financial statements to secure specific benefits. Fraud is categorized into three primary forms: corruption, asset misappropriation, and financial statement fraud [14]. Financial statement fraud can be perpetrated through the manipulation of accounting records or the application of inappropriate accounting principles, thereby misleading users of the financial statements. According to [15], financial statement fraud not only causes financial losses but also erodes investor confidence and damages the company's reputation. Therefore, the implementation of effective internal controls and a culture of integrity are crucial factors in preventing financial statement fraud.

2.3 Earnings Management

Earnings management refers to actions taken by management to leverage the flexibility of accounting methods to influence reported earnings in order to achieve specific objectives—such as boosting investor confidence, meeting shareholder expectations, or avoiding breaches of financial covenants [16]. This practice can involve strategies to either increase or decrease earnings, which are measured using discretionary accruals. Flexibility in financial reporting enables management to manipulate accruals, given that they possess more information than external parties [17]. Consequently, earnings management practices require oversight through the implementation of transparency and accountability to prevent a decline in the quality of information within financial statements.

2.4 Financial Stability

Financial stability refers to a company's ability to maintain its financial performance and health, thereby boosting the confidence of investors and stakeholders [14]. Conversely, financial instability can pressure management to present a more favorable financial position often through the manipulation of financial statements in order to maintain market confidence [11]. Therefore, financial stability serves as a crucial indicator for detecting potential financial statement fraud, as it reflects the company's true financial condition.

2.5 Good Corporate Governance

Good Corporate Governance (GCG) is a corporate governance system designed to direct and control the company, ensuring it is managed transparently, accountably, responsibly, independently, and fairly, thereby creating value for stakeholders [18]. Effective implementation of GCG strengthens oversight

functions, mitigates conflicts of interest between management and shareholders, and minimizes the risk of financial statement fraud [18]. In this study, Good Corporate Governance is proxied by the board of commissioners, the audit committee, and managerial ownership.

3 RESEARCH METHODS

This study employs a quantitative approach with a causal research design. The study population comprises all manufacturing companies listed on the Indonesia Stock Exchange during the 2022–2024 period. Secondary data were obtained from the companies' financial statements and annual reports. Purposive sampling was used to select the sample for the study period. The collected data were then compiled for analysis in accordance with the research requirements.

To analyze the influence of the independent variables on the dependent variable. The data were analyzed using logistic regression with SPSS version 25.

Table 1. Research sample criteria

	Criteria	Number of Companies
1	Manufacturing companies listed on the Indonesia Stock Exchange for the 2022-2024 period.	279
2	Companies that presented financial statements for the consecutive periods of 2022-2024.	(64)
3	The financial statements are presented in rupiah.	(30)
4	Companies that recorded a profit during the 2022-2024 period.	(68)
5	Companies that provide complete data for each variable.	(44)
The number of companies included in the sample		74
Number of observations (74 × 3 years)		222

Table 2. Operationalization of Variables

Variable	Indicator	Scale
Financial Statement Fraud	$\text{M-Score} = -4.84 + 0.92\ \text{DSRI} + 0.528\ \text{GMI} + 0.404\ \text{AQI} + 0.892\ \text{SGI} + 0.115\ \text{DEPI} - 0.172\ \text{SGAI} - 0.327\ \text{LVGI} + 4.679\ \text{TATA}$	Binary
Earning Management	$\text{TA}_{it} = \text{NI}_{\text{it}} - \text{CFO}_{\text{it}}$	Ratio
Financial Stability	$\text{Charge in Assets} = \frac{\text{Total Assets(t)} - \text{Total Assets(t} - 1)}{\text{Total Assets(t} - 1)}$	Ratio
Good Corporate Governance	$\text{Board of Commissioners} = \frac{\text{Number of independet commissioner}}{\text{Total number of Board of Commissioner}}$	Ratio
	$\text{Audit Committee} = \frac{\text{Number of AC who are IC}}{\text{Total number of AC}}$	Ratio
	$\text{MO} = \frac{\text{Number of employee share}}{\text{Total outstanding share}} \times 100\%$	Ratio

1. Financial statement fraud
   Financial statement fraud is measured using the Beneish M-Score with a threshold value of −2.22 [19]. Companies with an M-Score ≤ −2.22 are coded 0 (no indication of fraud), while companies with an M-Score > −2.22 are coded 1 (indication of fraud). This variable uses a nominal scale.
2. Earnings management
   Earnings management is measured using discretionary accruals based on the Modified Jones Model [20] and unexpected revenue per employee [21]. Discretionary accruals are calculated as the difference between total accruals (scaled by the previous year's total assets) and non-discretionary accruals. This variable is measured using a ratio scale.
3. Financial stability
   Financial stability is measured using the change in a company's total assets as an indicator of the financial pressure faced by management [8].
4. Good Corporate Governance
   a. Independent Commissioners
      The proportion of independent commissioners relative to the total number of board of commissioners members [22].
   b. Audit Committee
      The proportion of audit committee members who are independent commissioners relative to the total number of audit committee members [21].
   c. Managerial Ownership
      The proportion of shares held by management relative to the total outstanding shares [23].

4 RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Table 3. Descriptive statistical test results

Descriptive Statistics					
Var	N	Min	Max	Mean	Std. Dev.
Financial Statement Fraud	222	.00	1.00	.3874	.48825
Earnings Management	222	20	2131924	56841.054	241575.68
Financial Stability	222	-92	898	17.5676	80.39198
Board of Commissioners	222	25	83	43.2432	11.46209
Audit Committe	222	.00	100	36.2297	12.39677
Managerial Ownership	222	.00	78	9.5721	19.65038
Valid N	222				

Financial statement fraud (dependent variable, Y), measured by the M-score, has a minimum value of 0.00 and a maximum of 1.00, with a mean of 0.3874 and a standard deviation of 0.48825; this indicates considerable variation among the sample companies.

Earnings management (X1), measured by Discretionary Accruals (DA), shows a minimum value of 20.00, a maximum of 2,131,924.00, a mean of 56,841.0541, and a standard deviation of 241,575.68350; these figures indicate diverse earnings management practices.

Financial stability (X2) is measured through the change in assets calculated as total assets in year t minus total assets in year t-1, divided by total assets in year t-1. This variable has a minimum value of -92.00 and a maximum of 898.00, with a mean of 17.5676 and a standard deviation of 80.39198, reflecting significant differences in financial conditions across companies.

The board of commissioners (X3) is measured by the number of independent commissioners divided by the total number of commissioners. This variable has a minimum value of 25.00 and a maximum of 83.00, with a mean of 43.2432 and a standard deviation of 11.46209, indicating a relatively uniform oversight structure.

The audit committee (X4) is measured by the number of audit committee members who are independent commissioners divided by the total number of audit committee members. This variable has a minimum value of 0.00 and a maximum of 100.00, with a mean of 36.2297 and a standard deviation of 12.39677, indicating a relatively uniform oversight structure. Managerial ownership is measured by the number of shares held by employees divided by the total number of outstanding shares. This variable has a minimum value of 0.00 and a maximum value of 78.00, with a mean of 9.5721 and a standard deviation of 19.65038, indicating that the majority of management holds a low level of share ownership.

4.2 Logistic Regression Analysis

4.2.1 Multicollinearity Test

Table 4. Multicollinearity test results

Coefficients[a]							
Model	**Unstand. Coef**		**Stand. Coef**	**t**	**Sig.**	**Coll. Stat.**	
	B	**Std .Er**	**Beta**			**Tol.**	**VIF**
(constant)	.339	.156		2.165	.031		
X1	3.930E-7	.000	.194	2.647	.009	.816	1.225
X2	.000	.000	.030	.412	.681	.819	1.220
X3	.002	.003	.053	.793	.429	.995	1.005
X4	-.002	.003	-.052	-.787	.432	.990	1.010
X5	8.045E-5	.002	.003	.048	.961	.987	1.013

The multicollinearity test results show tolerance values greater than 0.10 and VIF values less than 10. This indicates the absence of multicollinearity in the logistic regression model; therefore, all independent variables can be used for further analysis.

4.2.2 Model Suitability Test (Goodness of Fit Test)

Table 5. Model feasibility test results

Hosmer and Lemeshow Test			
Step	Chi-Square	df	Sig
1	6.912	8	.546

The general criteria for the Hosmer-Lemeshow Goodness-of-Fit test are as follows: if the significance value (Sig.) is greater than 0.05, the model is considered fit (suitable for use). The calculated chi-square value for the Hosmer-Lemeshow statistic is 6.912, with 8 degrees of freedom (df) and a significance value (Sig.) of 0.546. Since the significance value exceeds 0.05 (0.546 > 0.05), the model can be considered to have an adequate fit to the observed data.

4.2.3 Overall Model Test (Overall Model Fit)

Table 6. Overall model test results

Iteration		-2 log likelihood	Coefficients constant
Step 0	1	296.402	-.450
	2	296.399	-.458
	3	296.399	-.458

The table above shows that the initial -2 log-likelihood value for block number 0 is 296.399. The information below presents the -2 log-likelihood value for block number 1.

Table 7. Results of the overall model assessment

It	-2 log likelihood	constant	X1	X2	X3	X4	X5
1	284.748	-.645	.000	.001	.009	-.008	.000
2	282.063	-.660	.000	.001	.011	-.011	-.001
3	281.227	-.672	.000	.001	.011	-.012	-.002
4	281.156	-.697	.000	.001	.011	-.012	-.002
5	281.156	-.701	.000	.001	.012	-.012	-.002
6	281.156	-.701	.000	.001	.012	-.012	-.002

Based on Table 4.4, the value for Block Number 0 is 296.399. After incorporating the five independent variables—as shown in Block Number 1—the -2 log

likelihood value decreased to 281.156; this reduction indicates a favorable regression result, implying that the hypothesized model fits the data.

4.2.4 Logistic regression test

Table 8 Logistic regression analysis results

Variables in the Equation						
	B	**S.E**	**Wald**	**dp**	**Sig.**	**Exp(B)**
X1	.000	.000	4.758	1	.029	1.000
X2	.001	.002	.326	1	.568	1.001
X3	.012	.012	.883	1	.347	1.012
X4	-.012	.013	.850	1	.357	.988
X5	-.002	.007	.056	1	.814	.998
constant	-.701	.721	.945	1	.331	.496

The constant has a negative value of -0.701. This indicates that if all independent variables namely earnings management, financial stability, the board of commissioners, the audit committee, and managerial ownership are assumed to be zero, the logit (or likelihood) of financial statement fraud occurring is -0.701.

The earnings management variable has a positive coefficient of 0.000; this means that the higher the level of earnings management practices employed by the company, the greater the likelihood of financial statement fraud. The direction of the coefficient indicates a positive relationship between earnings management and financial statement fraud.

The financial stability variable has a positive coefficient of 0.001. This indicates that an increase in financial stability leads to an increased likelihood of fraud. This occurs because, in a seemingly stable company, management is motivated to maintain an image of strong performance in the eyes of investors and external parties.

The board of commissioners variable has a positive coefficient of 0.012. This indicates that an increase in the size of the board of commissioners raises the likelihood of financial statement fraud, suggesting that a large board size is insufficient to reduce the risk of such fraud.

The audit committee variable has a negative coefficient of -0.012; this indicates that an increase in the audit committee's size (or presence) reduces the likelihood of financial statement fraud.

The managerial ownership variable has a negative coefficient of -0.002. An increase in managerial ownership reduces the likelihood of financial statement fraud because a larger proportion of shares held by management diminishes the incentive to commit fraud.

4.3 Hypothesis Testing

4.3.1 Wald Test

Table 9 Wald test results

B		**S.E**	**Wald**	**df**	**Sig**	**Exp(B)**	**95% c.i.for exp(B)**	
X1	.000	.000	4.758	1	.029	1.000	1.000	1.000
X2	.001	.002	.326	1	.568	1.001	.997	1.005
X3	.012	.012	.883	1	.347	1.012	.988	1.036
X4	-.012	.013	.850	1	.357	.988	.963	1.014
X5	-.002	.007	.056	1	.814	.998	.984	1.013
Cons	-.701	.721	.945	1	.331	.496		

The earnings management variable (X1) has a significance value of 0.029 (<0.05). This indicates that earnings management influences financial statement fraud, meaning Hypothesis 1 is accepted.

The financial stability variable (X2) has a significance value of 0.568 (>0.05). This indicates that financial stability does not influence financial statement fraud, meaning Hypothesis 2 is rejected.

The board of commissioners variable (X3) has a significance value of 0.347 (>0.05). This indicates that the board of commissioners does not influence financial statement fraud, meaning Hypothesis 3 is rejected.

The audit committee variable (X4) has a significance value of 0.357 (>0.05). This indicates that the audit committee does not influence financial statement fraud, meaning Hypothesis 4 is rejected.

The managerial ownership variable (X5) has a significance value of 0.814 (>0.05). This indicates that managerial ownership does not influence financial statement fraud, meaning Hypothesis 5 is rejected.

4.3.2 Simultaneous Significance Test (Omnibus Tests)

Table 10 Results of simultaneous significance tests

Omnibus Tests of Model Coefficients				
		Chi-square	df	Sig
Step 1	Step	15.243	5	.009
	Block	15.243	5	.009
	Model	15.243	5	.009

The results of the Omnibus Tests of Model Coefficients show a significance value of 0.009 (less than 0.05); thus, it can be concluded that earnings management, financial stability, the board of commissioners, the audit committee, and managerial ownership simultaneously influence financial statement

fraud in manufacturing companies listed on the Indonesia Stock Exchange during the 2022–2024 period.

4.4 Coefficient of Determination (R^2) Test

Table 11 Results of the coefficient of determination (R^2) test

Model Summary			
Step	-2 Log likelihood	Cox&Snell R Square	Nagelkerke R Square
1	281.156[a]	.066	.090

The table above shows that the coefficient of determination, as indicated by the Nagelkerke R-square value, is 0.090. This implies that the independent variables namely earnings management, financial stability, the board of commissioners, the audit committee, and managerial ownership explain 9.0% of the dependent variable (financial statement fraud), while the remaining 91% is explained by variables outside this research model.

Verification analysis is employed to determine the influence of independent variables on the dependent variable, both simultaneously and partially. This analysis utilizes logistic regression via the SPSS 25 software.

1. The simultaneous test results indicate a significance value of 0.009 (< 0.05), implying that earnings management, financial stability, the board of commissioners, the audit committee, and managerial ownership collectively influence financial statement fraud. These findings suggest that the combination of pressures faced by management—manifested through earnings management practices and financial stability conditions—alongside oversight mechanisms involving the board of commissioners, the audit committee, and managerial ownership, collectively affects the likelihood of financial statement fraud. The Nagelkerke R-Square value of 0.090 indicates that the research model explains 9% of the variance in financial statement fraud, while the remaining 91% is influenced by factors outside the model. This result aligns with agency theory [13], which posits that conflicts of interest between management (the agent) and owners (the principal) can drive financial statement manipulation, while the effectiveness of oversight mechanisms has not yet fully mitigated this risk. Consequently, financial statement fraud is a complex phenomenon influenced by other factors such as audit quality, internal control systems, firm size, and information asymmetry.

2. The research results indicate that earnings management has a positive effect on financial statement fraud, with a significance value of 0.029 (< 0.05). This finding suggests that higher levels of earnings management practices correlate with a greater likelihood of financial statement fraud. Earnings management practices reflect management's efforts to leverage accounting policy flexibility to present company performance in line with specific targets, thereby serving as an early indicator of potential financial statement manipulation. This finding is consistent with agency theory [13], which explains that conflicts of interest between management (as the agent) and shareholders (as the principal) drive management to act opportunistically through the manipulation of financial information. These results also support previous studies [21], [24], [25], and [7], which state that earnings management positively influences financial statement fraud. Thus, earnings management can serve as an indicator for detecting potential financial statement fraud.

3. The research results indicate that financial stability does not affect financial statement fraud, with a significance value of 0.568 (>0.05). These findings indicate that changes in a company's financial condition do not necessarily drive management to commit financial statement fraud. Empirically, the majority of companies in the sample experienced only relatively minor changes in assets, failing to generate sufficient financial pressure to trigger financial statement manipulation. These results do not support agency theory, which posits that the pressure faced by management can foster opportunistic behavior. However, financial pressure does not always lead to fraud, as management decisions are also influenced by the company's specific conditions and oversight mechanisms. [13]. This finding aligns with studies [26], [27], [28], and [29], which state that financial stability has no effect on financial statement fraud. Consequently, financial stability cannot serve as a primary indicator for detecting financial statement fraud, as companies experiencing changes in financial conditions do not necessarily engage in financial statement manipulation.

4. The research results indicate that the board of commissioners has no effect on financial statement fraud, with a significance value of 0.347 (>0.05). This finding suggests that the proportion of independent commissioners has not been sufficient to curb the likelihood of financial statement fraud. Empirically, the average proportion of independent commissioners 43.24% indicates that most

companies have met governance requirements; however, this figure does not necessarily reflect the effectiveness of the oversight function. Furthermore, a measurement based solely on the proportion of independent commissioners fails to capture the quality, independence, and level of engagement of the board of commissioners in carrying out its oversight duties. These results differ from the findings of studies [30] and [31] but align with studies [32], [22], and [33], which state that the board of commissioners has no effect on financial statement fraud because the oversight function is often merely a formality rather than an effectively functioning mechanism. Thus, the effectiveness of the board of commissioners in preventing financial statement fraud is determined not by its size or composition ratio, but by the quality, independence, and effective execution of its oversight function.

5. The research results indicate that the audit committee has no effect on financial statement fraud, with a significance value of 0.357 (>0.05). This finding suggests that the presence of an audit committee has not succeeded in curbing the likelihood of financial statement fraud. Empirically, the average proportion of audit committee members drawn from independent commissioners is 36.23%; however, this proportion does not necessarily reflect the effectiveness of the oversight function. This indicates that the proportion of membership alone is insufficient to describe the effectiveness of oversight, as it does not directly reflect meeting frequency, competence, or the members' expertise in accounting and finance. These results diverge from studies [30] and [23] but align with studies [34], [23], and [35], which state that the audit committee has no impact on financial statement fraud. According to agency theory [13], the audit committee serves as an oversight mechanism to mitigate conflicts of interest between management and shareholders. In practice, however, the audit committee's function often fails to operate optimally, frequently serving merely to satisfy corporate governance requirements. Consequently, the audit committee has been unable to play an effective role in preventing financial statement fraud.

6. The research results indicate that managerial ownership has no effect on financial statement fraud, with a significance value of 0.814 (>0.05). This finding suggests that the proportion of shares held by management has not succeeded in curbing the likelihood of financial statement fraud. Empirically, the average managerial ownership stands at 9.57%; this relatively low proportion of shares held by management means it has not exerted a significant influence on decision-making or oversight functions. These results diverge from studies [31] but align with studies [21], [35], and [37], which state that managerial ownership has no impact on financial statement fraud. According to agency theory [35], share ownership by management should theoretically align the interests of management and shareholders. However, the relatively small proportion of ownership has prevented the mechanism from functioning effectively; consequently, managerial ownership has not yet succeeded in serving as an internal oversight mechanism to prevent financial statement fraud.

5 CONCLUSION

This study aims to examine the influence of earnings management, financial stability, the board of commissioners, the audit committee, and managerial ownership on financial statement fraud in manufacturing companies listed on the Indonesia Stock Exchange from 2022 to 2024, leading to the following conclusions:

a. Earnings management has a positive effect on financial statement fraud in manufacturing companies listed on the Indonesia Stock Exchange.
b. Financial stability has no effect on financial statement fraud in manufacturing companies listed on the Indonesia Stock Exchange.
c. The board of commissioners has no effect on financial statement fraud in manufacturing companies listed on the Indonesia Stock Exchange.
d. The audit committee has no effect on financial statement fraud in manufacturing companies listed on the Indonesia Stock Exchange.
e. Managerial ownership has no effect on financial statement fraud in manufacturing companies listed on the Indonesia Stock Exchange.
f. Earnings management, financial stability, the board of commissioners, the audit committee, and managerial ownership simultaneously have a significant effect on financial statement fraud.

6 RECOMMENDATION

Companies are advised to strengthen the implementation of good corporate governance—specifically regarding the effectiveness of the board of commissioners and the audit committee—and to maintain financial stability in order to minimize the risk of financial statement fraud. Investors are advised not to rely solely on financial statements but also to consider the quality of corporate governance and other factors that

could influence fraud risk before making investment decisions.

Furthermore, future studies are encouraged to incorporate additional variables and utilize alternative measures for financial stability, such as the Compound Annual Growth Rate (CAGR); regarding other variables, alternatives could include the frequency of board of commissioners meetings, audit quality, and institutional ownership.

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