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The Effectiveness of Good Corporate Governance in Reducing the Risk of Fraudulent Financial Reporting

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ABSTRACT: This study aims to examine the effectiveness of good corporate governance as proxied by the independent board, audit committee, managerial ownership, and institutional ownership in reducing the risk of fraudulent financial reporting in banking companies listed on the Indonesia Stock Exchange from 2020 to 2024. The analysis was conducted on 39 companies that met the research criteria, resulting in a total of 195 samples. Hypothesis testing was performed using multiple linear regression analysis with the assistance of the Eviews 12 software. The results indicate that the independent board has a negative and significant effect on the risk of fraudulent financial reporting, while managerial ownership has a positive and significant effect. In contrast, the audit committee and institutional ownership do not have a significant effect. Furthermore, the F-test shows that the independent variables simultaneously have a significant effect on the dependent variable. Based on the coefficient of determination (R^2), 36.43% of the variation in the dependent variables can be explained by the independent variables.

KEYWORDS: Audit Committee, Fraudulent Financial Reporting, Institutional Ownership, Independent Board, Managerial Ownership.

INTRODUCTION

In recent years, the national and global business landscapes have been increasingly affected by cases of fraudulent financial reporting. Prominent corporate scandals such as Enron and WorldCom serve as a clear evidence of how the manipulation of financial statements can severely disrupt capital markets and erode public confidence in corporate accountability. In the Indonesian context, a notable case involved PT Garuda Indonesia, which, according to a press release by the Financial Services Authority (OJK) No. SP 26/DHMS/OJK/VI/2019, was found to have violated PSAK 115 by prematurely recognizing contract revenue of IDR 3.41 trillion in 2018, which should have been allocated over a 15-year period. Such instances of fraud highlight the persistent lack of integrity in financial reporting practices and underscore the need for stronger governance and oversight mechanisms.

According to a 2024 survey conducted by the Association of Certified Fraud Examiners (ACFE), financial statement fraud was identified as the least frequent type of fraud in terms of case percentage, yet it resulted in the highest financial losses compared to other types of fraud, such as asset misappropriation and corruption. Although financial statement fraud accounted for only 5% of reported cases, it generated an average loss of approximately USD 766,000 per incident. The survey further revealed that fraud committed by owners or executives causes losses that are, on average, seven times greater than those perpetrated by employees. Moreover, the banking and financial services sector was identified as the industry most frequently affected by fraud incidents.

According to Law No. 7 of 1992, Article 1, a banking institution is defined as a business entity that collects funds from the public in the form of deposits and redistributes them in the form of credit or other financial instruments with the aim of enhancing societal welfare. The responsibility of managing public funds places banking institutions in a strategically vital position within the national financial system, while also rendering them highly susceptible to fraudulent practices. Consequently, effective oversight by the Financial Services Authority (OJK) is essential. To regulate banking operations, the OJK has issued various regulations, including POJK No. 4/POJK.03/2016, which requires banks to conduct individual assessments of their financial health using a risk-based approach–one aspect of which includes evaluating good corporate governance (GCG). Considering the potential significance of losses arising from fraudulent activities within banking institutions, the OJK further introduced POJK No. 17 of 2023, a regulation specifically aimed at strengthening bank governance. This regulation mandates transparency in both financial and non-financial aspects, requiring banks to disclose relevant information to stakeholders by presenting reports that comply with the POJK.

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Nevertheless, despite the extensive regulations and oversight provided by the OJK, fraudulent activities remain prevalent in Indonesia's banking industry.

Financial statement fraud is generally driven by three key factors: pressure, opportunity, and rationalization. These elements collectively influence managerial decisions to engage in fraudulent behavior. Pressure, particularly the demand to meet earnings targets set by shareholders or principals, can lead management—as agents—to rationalize manipulative financial reporting, especially when the perceived risk of detection is low (Pamungkas et al., 2018). According to agency theory, the risk of fraudulent financial reporting can be mitigated through the implementation of good corporate governance (GCG) mechanisms (Rostami & Rezaei, 2022).

GCG governs both the internal and external relationships of a corporation. Internally, governance mechanisms include ownership and monitoring structures. Ownership mechanisms are reflected in managerial and institutional ownership, while monitoring mechanisms involve oversight by independent commissioners and external auditors. Rostami and Rezaei (2022) found that the implementation of GCG through independent board structures and managerial ownership significantly reduces the likelihood of financial statement fraud. In contrast, studies conducted by Indrati et al. (2021) and Mousavi et al. (2022) highlighted the pivotal role of audit committees in preventing such fraud. Furthermore, research by Paminto et al. (2020) found that both the existence of an audit committee and the tenure of external auditors have a significant impact in mitigating fraudulent financial reporting. Subsequent study will be undertaken to assess the efficacy of robust company governance in mitigating the risk of fraudulent financial reporting.

2. LITERATURES REVIEW

2.1 Agency Theory

Agency theory was initially presented by Jensen and Meckling in 1976 as a contractual connection between the principal and the agent. The principal hires and delegates authority to the agent to carry out operational tasks on their behalf. In a corporate context, the principal is represented by shareholders, while the agent refers to the company's management. The agent, acting on behalf of the principal, is responsible for making decisions related to the entity's operations.

In practice, there is a strong rationale to believe that agents, despite being granted authority by the principal, may not always act in the principal's best interests due to differences in objectives. Principals are primarily concerned with achieving high returns on their investments, whereas agents are motivated by personal incentives or performance-based bonuses. It is not uncommon for agents, particularly during periods of poor company performance, to manipulate information in order to present a misleading picture of the company's financial health to the principal for their own benefit. This phenomenon is commonly referred to as information asymmetry.

The divergence of interests between principals and agents often leads to conflicts of interest. Such conflicts arise when agents, in making decisions, prioritize their own personal gain without considering the interests of the principal (Yulistyawati et al., 2019). This misalignment can foster behaviors that increase the likelihood of fraudulent activities (Rostami & Rezaei, 2022).

2.2. Good Corporate Governance

Good Corporate Governance (GCG) serves as a mechanism to minimize inefficient corporate management performance arising from moral hazard and poor decision-making in the pursuit of organizational goals (Indrati et al., 2021). An effective governance system can reduce agency costs and the adverse consequences of conflicts of interest by enhancing transparency and the quality of disclosed information, thereby lowering the likelihood of financial statement fraud (Rostami & Rezaei, 2022). In practice, GCG implementation within a company typically includes the presence of an independent board, an audit committee, managerial ownership, and institutional ownership.

The board of directors is a corporate organ responsible for managing the company in the interests of, and in accordance with, its goals and objectives (KNKG, 2014). According to Circular Letter of the Indonesia Stock Exchange (IDX) No. SE-00001/BEI/2014, listed companies were required to appoint at least one independent director. The term independent director replaced the previous designation of non-affiliated director and was limited to a maximum tenure of two consecutive terms. However, this regulation was revoked on December 27, 2018, as stipulated in IDX Board of Directors Decree No. Kep-00101/BEI/12-2021, thereby eliminating the obligation to appoint independent director. Despite the regulatory repeal, many companies continue to retain independent director within their organizational structure to enhance independence and ensure more objective operational activities.

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According to POJK No. 55/POJK.04/2015, the audit committee is a body constituted by and accountable to the board of commissioners, responsible for assessing the financial information to be disclosed by the corporation. The rule mandates that listed corporations establish an audit committee including a minimum of three members, sourced from independent commissioners and/or external individuals, with the chairperson being an independent commissioner. The independence of the audit committee is regarded as a crucial factor that influences its effectiveness in overseeing the financial reporting process (Mousavi et al., 2022).

Managerial ownership refers to the portion of a company's share held by its management (Widowati & Otoriza, 2021). Financial Services Authority Regulation No. 4 of 2024 requires each member of the board of directors or board of commissioners who owns shares in the company to report their voting rights through the OJK's designated electronic reporting system. When management has equity ownership in the company, it fosters a stronger alignment between managerial interests and those of shareholders. Such ownership encourages managers to make careful decisions and act prudently to avoid harming the company, thereby reducing the likelihood of fraudulent behavior (Solikhah & Cahyaningtyas, 2024).

Institutional ownership, on the other hand, refers to the portion of shares held by institutional investors. This form of ownership is believed to mitigate agency conflicts between management and shareholders by promoting effective oversight of managerial behavior in running the company (Harrisy & Murtanto, 2024). Institutional investors are also regarded as capable of exercising effective monitoring and control over management, thereby minimizing the occurrence of fraud (Pamungkas et al., 2018).

2.3 HYPHOTESIS DEVELOPMENT

2.3.1. Independent Board and the impact to Risk of Fraudulent Financial Reporting

The independence of the board of directors is considered a key determinant of its overall effectiveness (Mousavi et al., 2022). A higher proportion of independent board members is expected to enhance the objectivity and autonomy of the board in overseeing operations and making strategic decisions. This increased independence helps ensure that decisions are made in the best interest of the company, free from conflicts of interest, thereby reducing the likelihood of fraudulent financial reporting. This view is supported by the findings of Rostami and Rezaei (2022), Mousavi et al. (2022), and Ibadin and Ehigie (2019), who stated that independent boards have a negative and significant effect on the risk of fraudulent financial reporting.

H_1: IB has a negative and significant effect on the risk of FFR

2.3.2. Audit Committee and the impact to Risk of Fraudulent Financial Reporting

The audit committee can work together with the internal audit department to engage in discussions and evaluations of corporate performance, therefore facilitating effective oversight (Indrati et al., 2021). An independent audit committee's oversight is anticipated to improve the quality and openness of the company's financial disclosures, hence diminishing the probability of fraudulent financial reporting. The findings of Indrati et al. (2021), Paminto et al. (2020), and Mousavi et al. (2022) indicate that the audit committee exerts a negative and significant influence on the risk of fraudulent financial reporting.

H_2: AC has a negative and significant effect on the risk of FFR

2.3.3. Managerial Ownership and the impact to Risk of Fraudulent Financial Reporting

From the standpoint of agency theory, managerial ownership is viewed as an alternative mechanism to reduce information asymmetry and conflicts of interest. When management holds ownership stakes, their interests are aligned not only with the company's profitability but also with its stock value. This alignment incentivizes managers to act in ways that enhance firm value and to avoid behaviors that could lead to negative outcomes, such as fraudulent financial reporting. This view is supported by the findings of Rostami and Rezaei (2022), who stated that managerial ownership has a negative and significant effect on the risk of fraudulent financial reporting.

H_3: MO has a negative and significant effect on the risk of FFR

2.3.4. Institutional Ownership and the impact to Risk of Fraudulent Financial Reporting

Higher levels of institutional ownership in a company indicate increased external oversight and monitoring of management, thereby reducing the likelihood of fraudulent activities. Institutional investors, due to their significant stakes and professional expertise, are more likely to exert effective control over managerial behavior. This view is supported by the findings of Widowati and Otoriza (2021), who stated that institutional ownership has a negative and significant effect on the risk of fraudulent financial reporting.

H_4: IO has a negative and significant effect on the risk of FFR

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2.3.5. Hypothesis Model

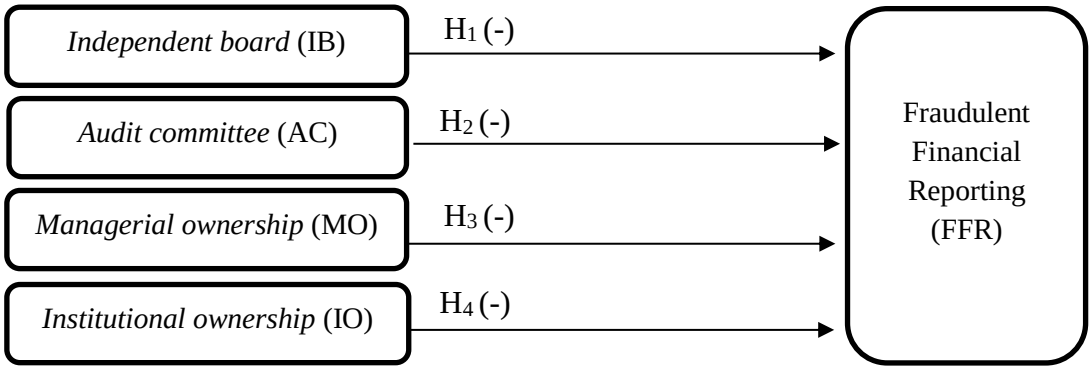

Figure 1: Hypothesis Model

3. RESEARCH METHODS

3.1 Population and Samples

The unit of analysis in this study is the banking sector. The data used consists of financial statements from banking companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024. The sample selection was conducted using a purposive random sampling method based on the following criteria: (a) banking companies that were listed and continuously active on the IDX from 2020 to 2024, (b) banking companies whose financial statements are presented in Indonesian Rupiah, and (c) conventional banking entities.

Table 1. Sampling Results

Criteria	Total
Banking companies listed on IDX from 2020 to 2024	47
Banking companies that were newly listed on the IDX during the research period	(4)
Banking companies with financial statements denominated in currencies other than IDR	(1)
Sharia banking companies	(3)
Total banking companies as samples	39
Total observed data (39 x 5 years)	195

3.2 Operational Definition and Measurement

3.2.1. Dependent Variables

Fraudulent financial reporting is proxied by earnings management, which is measured using the Modified Jones Model of Discretionary Accruals (Widowati & Oktoriza, 2021).

FFR : The Modified Jones Model (Dechow et al., 1995):

$DA = (TA_{it}/A_{it-1}) - NDA_{it}$

$TA = NI_{it} - CFO_{it}$

$NDA = \alpha_1(1/Ait\text{-}1) + \alpha_2\{(\Delta REV_{it} - \Delta REC_{it})/A_{it-1}\} + \alpha_3(PPE_{it}/A_{it-1})$

Where A_{it-1} = total assets of company i in period t–1; ΔREV_{it} = revenue of company i in period t minus the revenue of company i in period t–1; ΔREC_{it} = receivables of company i in period t minus the receivables of company i in period t–1; PPEit = property, plan and equipment of company i in period t; NI_{it} = net income of company i in period t; and CFO_{it} = operating cash flow of company i in period t.

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3.2.2. Independent Variables

Table 2. Independent Variables Formula

Variable	Measurements
Independent board (Rostami & Rezaei, 2022)	$\frac{Number\ of\ independent\ directors}{Total\ BOD}$
Audit committee (Indrati et al., 2021)	$\frac{Number\ of\ independent\ audit\ commitee}{Total\ audit\ committee}$
Managerial ownership (Solikhah & Cahyaningtyas, 2024)	$\frac{Total\ managements'shares}{Total\ of\ shares\ outstanding}$
Intitutional ownership (WIidowati & Otoriza, 2021)	$\frac{Total\ institutional's\ shares}{Total\ of\ shares\ outstanding}$

3.3 Data Analysis Technique

The data is first subjected to descriptive statistical analysis to provide an overview of the dataset. To determine the appropriate regression model for the study, Chow test, Hausman test, and Lagrange Multiplier test are undertaken. Upon selecting the model, determined by the regression analysis outcomes, whether it be the Common Effect Model (CEM) or the Fixed Effect Model (FEM), the next steps is performing classical assumption tests, including the normality test, multicollinearity test, and heteroscedasticity test. Hypothesis testing is carried out using multiple linear regression analysis with Eviews software.

To test the hypothesis above, we employed the research model below:

$FFR = \alpha + \beta_1 IB + \beta_2 AC + \beta_3 MO + \beta_4 IO + \varepsilon$

4. RESULT AND DISCUSSION

4.1 Descriptive Statistics

Table 3. Descriptive Statistics

	IB	AC	MO	IO	FFR
Mean	0.107634	0.950794	0.007629	0.749140	0.135170
Median	0.090909	1.000000	2.90E-05	0.786404	0.107631
Maximum	1.000000	1.666667	0.332858	0.998848	7.297292
Minimum	0.000000	0.250000	0.000000	0.270805	-0.952234
Std. Dev.	0.138371	0.166828	0.038259	0.164014	0.679299
Skewness	2.930696	-2.443138	5.872237	-0.602441	6.924801
Kurtosis	18.68836	12.30867	39.65181	2.392063	69.21073
Jarque-Bera	2278.905	898.0316	12035.46	14.79828	37177.34
Probability	0.000000	0.000000	0.000000	0.000612	0.000000
Sum	20.98856	185.4048	1.487686	146.0824	26.35806
Sum Sq. Dev.	3.714435	5.399339	0.283973	5.218684	89.52074
Observations	195	195	195	195	195

Based on the table above, the data comprises four independent variables from 39 banks, resulting in a total of 195 samples. The independent board variable shows a mean value of 0.107634 with a standard deviation of 0.138371. The standard deviation being higher than the mean indicates a wide distribution of the independent board variable, with some companies having at least one independent board member, while others have none. A similar pattern is observed in the variables of management ownership and

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fraudulent financial reporting. For management ownership, the standard deviation of 0.038259 exceeds the mean of 0.007629, indicating a wide distribution, with 14 companies having no managerial ownership at all during the research period. As for the fraudulent financial reporting variable, the standard deviation of 0.679299 is significantly higher than the mean of 0.135170, suggesting inconsistencies in financial reporting across companies and resulting in a broad data dispersion. The audit committee variable has a mean value of 0.950794 with a standard deviation of 0.166828. The standard deviation being lower than the mean indicates that the audit committee variable has relatively low dispersion, reflecting a degree of homogeneity in the presence of audit committees across companies. A similar pattern is observed for the institutional ownership variable, which has a mean of 0.749140 and a standard deviation of 0.164014. This suggests that all sampled companies have a significant proportion of institutional ownership, with a moderate level of variation between companies.

4.2 Model Regression Analysis

4.2.1 Chow Test

Table 4. Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.938913	(38,152)	0.0027
Cross-section Chi-square	77.070209	38	0.0002

Based on the table above, the probability value of the cross-section chi-square is 0.0002, which is less than 0.05. Therefore, the null hypothesis (H_0) is rejected, indicating that the fixed effect model is more appropriate for this study. Subsequent to this outcome, the Hausman test is administered to ascertain the appropriateness of the random effects model against the fixed effects model for the study.

4.2.2 Hausman Test

Table 5. Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.771969	4	0.0444

The probability value of the cross-section random is 0.044, which is less than 0.05. Therefore, the null hypothesis (H_0) is rejected, indicating that the fixed effect model is more appropriate for this study. Following the conduct of the Chow test and the Hausman test, it can be stated that the panel data regression model is more accurately estimated using the fixed effects model. Consequently, the Lagrange Multiplier test become irrelevat.

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4.3 Classical Assumption Test

4.3.1 Normality Test

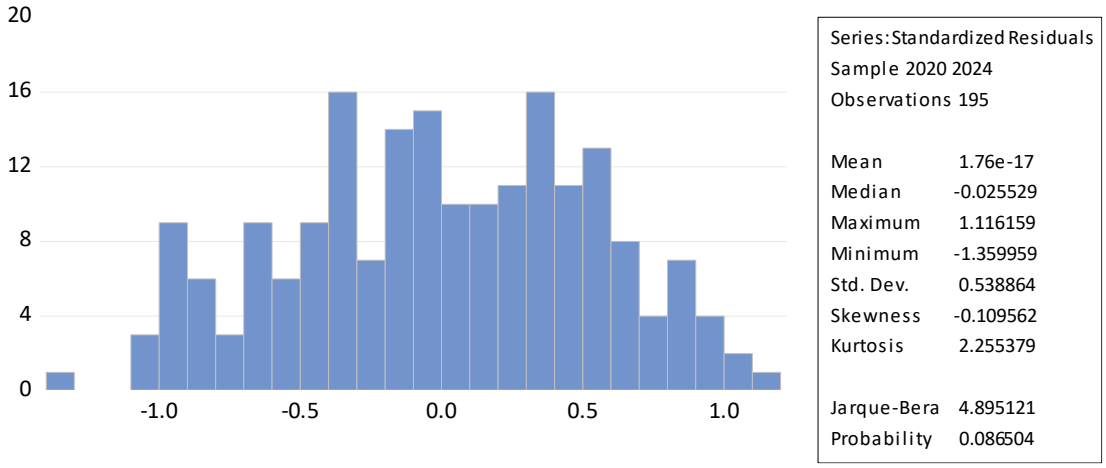

Figure 2. Normality Test

The normality test is conducted by examining the Jarque-Bera probability value. As shown in the table above, the Jarque-Bera probability value is 0.086504, which means the probability value is greater than 0.05. Therefore, H_0 is accepted, indicating that the residuals of the variables in this study are normally distributed.

4.3.2. Multicollinearity Test

Table 6. Multicollinearity Test

	IB	AC	MO	IO
IB	1.000000	0.127402	0.099185	0.099270
AC	0.127402	1.000000	-0.149115	0.097124
MO	0.099185	-0.149115	1.000000	0.053055
IO	0.099270	0.097124	0.053055	1.000000

A research model is considered free from multicollinearity issues if the correlation values between independent variables do not exceed 0.80. As shown in the table above, none of the independent variables have a correlation value greater than 0.80 with the other independent variables. Therefore, it can be concluded that the research model is free from multicollinearity problems.

4.3.3 Heteroscedasticity Test

Table 7. Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.135303	0.585863	-0.230946	0.8177
IB	-0.437599	0.436843	-1.001732	0.3181
AC	0.528343	0.478613	1.103904	0.2714
MO	-0.299116	1.255254	-0.238291	0.8120
IO	-0.056486	0.526559	-0.107274	0.9147

As shown in the table above, the probability values for all variables are greater than 0.05, indicating that the null hypothesis (H_0) is accepted. This means the research model is free from heteroscedasticity issues, and the residuals exhibit homoscedasticity.

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4.4 Hypothesis Testing

Table 8. T-test

Dependent Variable: FFR
Method: Panel EGLS (Cross-section weights)
Date: 05/17/25 Time: 09:52
Sample: 2020 2024
Periods included: 5
Cross-sections included: 39
Total panel (balanced) observations: 195
Linear estimation after one-step weighting matrix
White diagonal standard errors & covariance (no d.f. correction)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.043523	0.400485	-2.605645	0.0101
IB	-0.824988	0.275044	-2.999474	0.0032
AC	0.824567	0.432103	1.908266	0.0582
MO	0.496756	0.245807	2.020921	0.0450
IO	0.640341	0.381195	1.679827	0.0950

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

Root MSE	0.537481	R-squared	0.501977
Mean dependent var	0.204775	Adjusted R-squared	0.364365
S.D. dependent var	0.771708	S.E. of regression	0.608777
Sum squared resid	56.33267	F-statistic	3.647779
Durbin-Watson stat	2.062264	Prob(F-statistic)	0.000000

4.5 Discussion

Based on the results of the t-test presented in Table 8, the independent variables (independent board, audit committee, management ownership, institutional ownership) were tested for their influence on the dependent variable (fraudulent financial reporting) using linear regression. When all independent variables are held constant, the value of the dependent variable is -1.043523. The coefficient for the independent board variable is -0.824988 with a significance level of 0.0032, which is less than 0.05. This indicates that H_1 is accepted, meaning the independent board variable has a negative and significant effect on the risk of fraudulent financial reporting. This finding is consistent with studies by Rostami and Rezaei (2022) and Peter and Aimienrovbiye (2019), which show that a higher proportion of independent board members in a company reduces the likelihood of management engaging in financial reporting fraud. Similarly, Maryam et al. (2022) also found that an independent board positively influences the quality of information disclosure and the prevention of fraud.

The coefficient for the audit committee variable is 0.824567 with a significance value of 0.0582, which is greater than 0.05. This indicates that H_2 is rejected, meaning the audit committee does not have a significant effect in reducing the risk of fraudulent financial reporting. The average proportion of independent audit committee members among the 39 banking companies sampled in this study is 95%, suggesting that only a small number of audit committee members are non-independent. However, the findings indicate that despite the majority composition of independent members, management may still be able to engage in fraudulent financial reporting. The high proportion of independent audit committee members may reflect mere compliance with the provisions

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of POJK No. 55/POJK.04/2015, without being accompanied by actual performance or effectiveness in detecting and preventing fraudulent reporting activities by management. This result is consistent with the study by Widowati and Otoriza (2021), which also found that the audit committee has no significant effect on fraudulent financial reporting.

The coefficient for the managerial ownership variable is 0.496756 with a significance value of 0.0450. Although the significance value is less than 0.05, the direction of the relationship contradicts the initial hypothesis. Therefore, H_3 is rejected, indicating that managerial ownership does not reduce the risk of fraudulent financial reporting. The findings suggest that higher levels of managerial ownership may actually increase the likelihood of management engaging in fraudulent reporting. While managerial ownership is expected to align management's interests with those of the shareholders, encouraging behavior that enhances firm value and discourages actions that lead to financial fraud—this expectation was not met. On the contrary, the results show the opposite effect. This finding is consistent with the study by Solikhah and Cahyaningtyas (2024), which states that individuals who own a substantial number of shares may believe that manipulating financial statements is the best way to benefit both the company and themselves.

The coefficient for the institutional ownership variable is 0.640341, with a significance value of 0.0950. Since this value is greater than 0.05, H_4 is rejected, indicating that institutional ownership does not significantly reduce the risk of fraudulent financial reporting. The average level of institutional ownership in the 39 banking companies during the research period was 74%. This suggests that, even in companies with substantial institutional investors, the risk of financial statement fraud may persist due to insufficient oversight from these investors. Many institutional investors tend to prioritize company profitability over adherence to operational standards, especially when their ownership stake is not significant. When an institutional investor holds more than 50% of a company's shares, operational performance directly affects the investor's own financial condition due to required financial consolidation. However, in cases of non-controlling ownership, institutional investors often focus solely on financial returns without actively monitoring the company's operational activities. Thus, the presence of institutional investors which was expected to serve as a mechanism of good corporate governance and help mitigate agency conflicts, may in practice become a mere formality, offering little added value to the company. This result aligns with the findings of Harrisy and Murtanto (2024), who concluded that institutional ownership does not significantly influence the risk of fraudulent financial reporting.

The research model used in this study demonstrates statistical significance, as indicated by the probability value of the F-statistic (Prob (F-statistic) = 0.000000) shown in Table 8. Since this probability value is less than 0.05, it implies that all independent variables simultaneously have a significant influence on the dependent variable. The coefficient of determination test is assessed through the Adjusted R-squared value, which is 0.3643. Thus, 36.43% of the variation in the dependent variable is attributable to the independent factors in this study, and the remaining 63.57% is accounted for by additional variables not incorporated in the model.

5. CONCLUSION AND SUGGESTION

5.1 Conclusion

The study conducted on 39 banking companies listed on the IDX during the 2020–2024 period aims to examine the influence of independent variables, namely good corporate governance as proxied by independent board, audit committee, managerial ownership, and institutional ownership, on the dependent variable of fraudulent financial reporting. Based on 195 samples processed using Eviews 12, several conclusions can be drawn:

a. The independent board variable has a negative and significant effect on fraudulent financial reporting.
b. The audit committee variable has no effect on fraudulent financial reporting.
c. The managerial ownership variable has a positive and significant effect on fraudulent financial reporting.
d. The institutional ownership variable has no effect on fraudulent financial reporting.

The statistical results of the fixed effect model also provide the effectiveness from the data which from independent board, audit committee, managerial ownership, and institutional ownership, explaining only for 36% of the variation in fraudulent financial reporting.

5.2 Suggestion

Future researchers interested in this topic are encouraged to broaden the scope of their study by incorporating cross-sectoral or cross-country data, or by extending the research period to obtain more generalizable results. Additionally, subsequent studies are advised

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to include other variables that represent the implementation of good corporate governance in order to provide a more comprehensive understanding of the factors that may reduce the risk of fraudulent financial reporting.

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