



The Effect of Good Corporate Governance on Indications of Financial Statement Fraud in State-Owned Enterprises Listed on The Indonesian Stock Exchange for The 2020-2024 Period

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ABSTRACT: The purpose of this study was to analyze how Good Corporate Governance mechanisms, as represented by the board of commissioners, audit committee, institutional ownership, and whistleblowing system, affect indications of financial statement fraud in state-owned enterprises listed on the Indonesia Stock Exchange during the 2020-2024 period. This research was conducted on state-owned enterprises listed on the Indonesia Stock Exchange. Data were obtained through the official website of the Indonesia Stock Exchange at www.idx.com. The sampling technique used was purposive sampling, resulting in a sample of 17 state-owned enterprises listed on the Indonesia Stock Exchange during the 2020-2024 period. The analysis was carried out using panel data multiple linear regression with the assistance of EViews statistical software. The results of this study indicate that the audit committee variable has an effect on indications of financial statement fraud. Meanwhile, the board of commissioners, institutional ownership, and whistleblowing system variables do not have a significant effect on indications of financial statement fraud.

KEYWORDS: Good corporate governance, indications of financial statement fraud

INTRODUCTION

State-Owned Enterprises (SOEs) play a dual strategic role: as providers of public services and as engines of national economic growth. The success of SOEs in generating profits not only supports the state budget through dividends, but also serves as an instrument for equitable distribution of wealth among the people (Tanjaya & Kwarto, 2022). As entities listed on the Indonesia Stock Exchange (IDX), SOEs have a moral and legal responsibility to present transparent financial reports in accordance with Financial Services Authority (OJK) regulations. This transparency is a key pillar in maintaining investor confidence and implementing Good Corporate Governance (GCG) (Purba & Syafruddin, 2023).

However, the reality on the ground shows a paradox. Despite tighter supervision, fraudulent financial reporting practices remain a serious threat. According to the ACFE report (2022), fraudulent financial reporting only accounts for 9% of total fraud cases globally, but it has the most destructive financial impact, with an average loss of \$593,000 per case. In Indonesia, this phenomenon is increasingly alarming. ACFE Indonesia data (2019) notes that state-owned enterprises (SOEs) are the second most affected organizations by fraud, with losses reaching 31.8%. Major cases such as revenue recognition manipulation at PT Garuda Indonesia Tbk (2018), profit engineering at PT Asuransi Jiwasraya, and negative operational cash flow anomalies that contradict net profits at PT Waskita Karya Tbk, prove that the integrity of SOE financial reports is still vulnerable (Katadata, 2019; 2023).

Mitigation efforts through strengthening the GCG structure are crucial. The role of the Board of Commissioners and the Audit Committee as internal supervisors is expected to be able to detect anomalies early on through their professional expertise (Astami et al., 2024). In addition, the involvement of Institutional Ownership serves as an external control that pressures management to remain transparent. On the other hand, the implementation of a Whistleblowing System (WBS) has emerged as an effective early detection tool, proven to be able to assist in the disclosure of 22.6% of cases (ACFE, 2019).

Although theoretically GCG mechanisms can suppress fraud, various previous studies have shown inconsistent results (research gap). Some studies have found a significant positive effect, but many have also shown a negative effect or even no effect at all on financial statement fraud. Regarding the role of the Board of Commissioners, several studies found that a large number of members actually correlates positively with fraud (Ramadhani & Agustin, 2021), while Astami et al. (2024) found a significant



negative effect as evidence of effective supervision. On the other hand, Priswita & Taqwa (2019) and Sudjono (2023) argue that the board of commissioners has no influence at all because the supervision carried out is often merely administrative in nature.

Similar uncertainty is found in the Audit Committee variable. Gunawan & Sanjaya (2021) show that the existence of an audit committee is positively related to the detection of fraud, but the majority of researchers, such as Prasetyo & Harto (2023) and Maisaroh & Nurhidayati (2021), prove that a competent audit committee significantly reduces the risk of financial statement fraud. However, these findings are refuted by Chenkiani & Prasetyo (2023) and Soesanto et al. (2024), who state that audit committees do not have a significant effect in detecting systematic manipulation by management. In terms of ownership structure, institutional ownership, which is expected to be an external supervisory agent, also shows biased results. Kusuma & Fitriani (2020) and Soesanto et al. (2024) support agency theory with their findings that institutional ownership can reduce fraud, but research by Riandani & Rahmawati (2019) reveals that this ownership has no effect due to limited access to information or the potential for compromise with management.

Finally, the implementation of the Whistleblowing System (WBS), which in theory is the most powerful early detection tool, also remains controversial. Ardiansyah (2023) and Setiawan & Sari (2024) found that WBS is effective in uncovering fraud, while Utari et al. (2019) saw the role of WBS in suppressing the intentions of fraud perpetrators. Conversely, Maisaroh & Nurhidayati (2021) found that this system has no significant effect, indicating that without strong whistleblower protection, this system is merely an organizational formality. This diversity of findings motivated the author to re-examine the GCG model in the context of SOEs in Indonesia for the 2020-2024 period.

THEORETICAL BASE

Agency Theory

Agency theory explains the dynamics of the working relationship between principals (shareholders) and agents (management). Jensen and Meckling (1976) define this relationship as a contract in which principals delegate decision-making authority to agents to manage the company. However, this delegation creates a fundamental challenge in the form of information asymmetry, where agents have broader access to operational data than principals. This information gap opens up opportunities for agents to manipulate financial reports for personal gain, which in turn harms the interests of principals. Eisenhardt (1989) highlights three assumptions about human behavior that complicate this relationship, namely self-interest, bounded rationality, and risk aversion. These three factors give rise to agency costs, which include: Monitoring costs (supervision costs incurred by the principal), Bonding costs (guarantee costs incurred by agents) Residual losses (losses that remain due to divergent interests). In this study, agency theory is used as a basis for analyzing how Good Corporate Governance (GCG) mechanisms function as mitigation tools. GCG plays a role in reducing information asymmetry gaps through strict supervision and increased transparency. With an effective governance system, the agent's room to manipulate financial reports can be reduced, thereby maintaining the integrity of accounting information and preserving the principal's trust.

Board of Commissioners

The board of commissioners plays a crucial role as a pillar of supervision in the corporate governance structure, particularly in ensuring the integrity of financial reporting. Based on Agency Theory, the emergence of information asymmetry provides opportunities for management (agents) to engage in opportunistic actions that may conflict with the interests of shareholders (principals) (Ramadhani & Agustin, 2021). In this context, the board of commissioners serves as the main internal control mechanism to mitigate such conflicts of interest. An increase in the number of board members is believed to strengthen the supervisory function through a more specific distribution of tasks and an increase in collective capabilities (Arum et al., 2023). With a larger board, companies have access to more diverse perspectives, which are essential for detecting anomalies or indications of fraud in financial reports early on (Priswita & Taqwa, 2019). Strict and effective oversight by the board of commissioners will limit management's room to manipulate data, thereby increasing corporate transparency and accountability (Uwuigbe et al., 2019; Astami et al., 2024). Empirically, supervision by the board of commissioners has been proven to reduce the risk of financial reporting fraud through more comprehensive monitoring of management performance (Handayani, 2020). Based on these arguments, the following hypothesis is formulated:

H1: The board of commissioners has a negative effect on indications of financial statement fraud.



Audit Committee

Within the framework of Agency Theory, audit committees serve as a control mechanism to mitigate conflicts of interest between shareholders (principals) and management (agents). Management often has incentives to manipulate financial statements to serve their personal interests, which creates information asymmetry (Ruchiatna et al., 2020). The audit committee is present to ensure transparency and accountability through strict supervision of financial statements, external audits, and the effectiveness of internal control systems (Amaliyah & Herwiyanti, 2019). The existence of audit committees, especially those with financial competence and an adequate number of members, has been empirically proven to improve the quality of early detection of profit management practices and fraud (Larasati et al., 2020; Gunawan & Sanjaya, 2021). Effective oversight ensures that audit findings are followed up, thereby narrowing the scope for fraudulent actions within the organization (Laming et al., 2019; Arum et al., 2023). Consistent with previous studies showing that a strong audit committee can reduce the risk of fraud (Uwuigbe et al., 2019; Astami et al., 2024), the hypothesis proposed is:

H2: The audit committee has a negative effect on indications of financial statement fraud.

Institutional Ownership

Institutional ownership reflects the proportion of shares owned by entities such as banks, insurance companies, and investment institutions (Priswita & Taqwa, 2019). The existence of institutional investors serves as a strong external control mechanism because they have significant resources and incentives to monitor managerial behavior (Kurniawan et al., 2020). Based on agency theory, strict supervision from institutional investors can mitigate conflicts of interest between principals and agents, while reducing information asymmetry, which often provides opportunities for manipulation. Previous studies have shown that institutional ownership significantly reduces financial statement manipulation by forcing management to be more transparent (Perdana, 2019). The higher the level of institutional ownership, the more effective the monitoring function, thereby limiting management's opportunities to commit fraud for personal gain (Mulyadianto et al., 2020; Gunawan & Sanjaya, 2021). By encouraging healthy and accountable performance, institutional investors ensure that financial reports reflect the company's actual economic condition. Based on these arguments, the following hypothesis is proposed:

H3: Institutional ownership has a negative effect on indications of financial statement fraud.

Whistleblowing System

The whistleblowing system (WBS) is a crucial instrument in detecting and preventing fraud through active employee participation (KNKG, 2008). Based on Agency Theory, this system functions as a monitoring mechanism to mitigate information asymmetry between agents and principals, which often becomes a loophole for fraudulent acts (Laming et al., 2019). Data from ACFE Indonesia (2020) reinforces this strategic role, where 50.2% of fraud cases were uncovered through internal reports. The effectiveness of WBS creates a transparent environment and increases the risk of detection for perpetrators, thereby significantly reducing the probability of financial statement manipulation (Utami, 2018). Based on these arguments, the research hypothesis is:

H4: The whistleblowing system has a negative effect on the level of financial statement fraud.

RESEARCH METHOD

This study uses an associative research concept with a quantitative approach. Associative research identifies the relationship between two or more variables. The population in this study includes all state-owned enterprises listed on the Indonesia Stock Exchange (IDX). Data sources were obtained through the website www.idx.co.id. Purposive sampling was used based on specific criteria, namely that the company was listed on the Indonesia Stock Exchange (IDX) in the 2020-2024 period and published annual reports consecutively in the 2020-2024 period. Utilizing a purposive sampling technique, a sample of 17 companies was selected based on established inclusion criteria from an initial population of 28. Data analysis techniques used panel data analysis using E-Views statistical data processing software. The regression equation used is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Description:

Y: Indications of financial statement fraud

α : Constant



$\beta_1... \beta_4$: Regression coefficient

X1 : Board of Commissioners

X2 : Audit Committee

X3 : Institutional Ownership

X4 : Whistleblowing System

ϵ : Standard error

RESEARCH RESULTS

Descriptive Statistics

Descriptive statistical analysis to understand the description of the data used. Utilization of the Eviews 10 application program to conduct descriptive statistical tests. The results of this analysis are presented in the following table:

Table 1. Descriptive Statistics Results

	Minimum	Maximum	Mean	Std. Deviasi
Indications of financial statement fraud	-4.459218	-1.013239	-2.642018	0.556225
Board of Commissioners	2.000000	10.00000	6.376471	1.779356
Audit Committee	0.330000	1.000000	0.711882	0.203297
Institutional Ownership	0.396831	0.900252	0.664144	0.120389
Whistleblowing System	0.680000	1.000000	0.830588	0.087428

Normality Test

The normality test shows that the data is normally distributed as seen from the probability jarque-bera value, as follows:

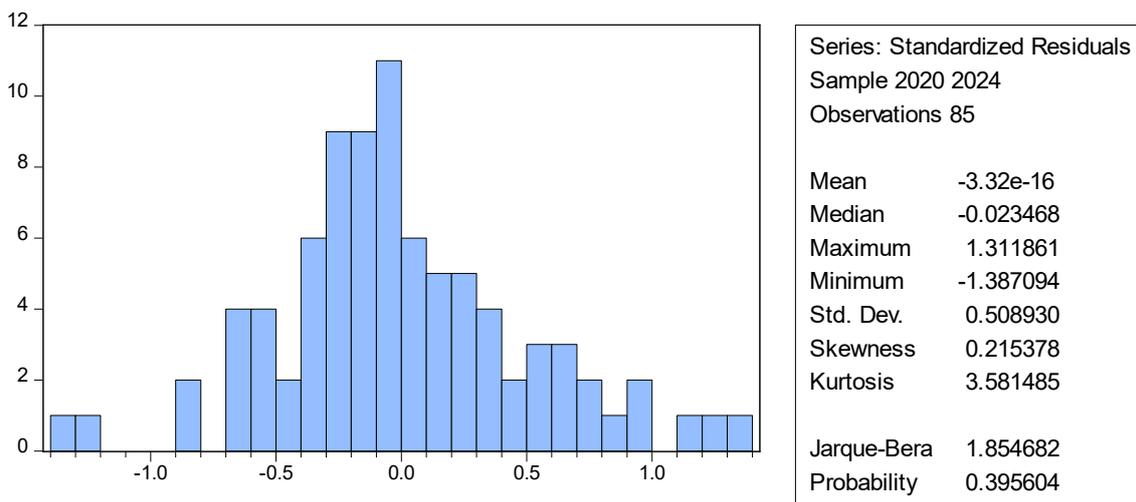


Figure 1. Normality Test Results

Normality testing indicates that the probability values for all equations are greater than 0.05. Thus, the residuals of the model follow a normal distribution.

Multicollinearity Test

In this study there is no multicollinearity problem, which looks like in the table below:



Table 2. Multicollinearity Test Results

	Board of Commissioners	of Audit Committee	Institutional Ownership	Whistleblowing System
Board of Commissioners	1.000000	0.161580	-0.126251	-0.384068
Audit Committee	0.161580	1.000000	0.057984	-0.252439
Institutional Ownership	-0.126251	0.057984	1.000000	-0.192233
Whistleblowing System	-0.384068	-0.252439	-0.192233	1.000000

Based on the table above, the multicollinearity test indicates that the correlation coefficients between independent variables do not exceed the 0.80 threshold. Consequently, the regression model does not exhibit significant multicollinearity issues

Heteroscedasticity Test

The heteroscedasticity test was not conducted in this study due to the use of Random Effect Model (REM) estimation with the Generalized Least Squares (GLS) approach. The GLS technique automatically performs weighting to overcome variance inequality between residuals, so that the resulting model is assumed to be free from heteroscedasticity issues (Basuki & Prawoto, 2016).

Autocorrelation Test

This study uses a panel data regression model that combines cross-section and time series data. Referring to Basuki & Prawoto (2016), the autocorrelation test is basically intended for pure time series data to detect correlations between observations over time. In the context of panel data, where the cross-section dimension is more dominant and the number of time series is relatively short, the issue of autocorrelation becomes less relevant. Therefore, the autocorrelation test was not performed in this analysis because the assumption of independence between observations has been fulfilled through the characteristics of the panel data used.

Hypothesis Test

After testing the data analysis requirements is completed, then the significance of panel data regression using the random effect model is tested as follows:

Table 5. Hypothesis Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	-2.329326	1.021744	-2.279755	0.0253
Board of Commissioners (X1)	0.078606	0.040440	1.943757	0.0554
Audit Committee (X2)	-1.113238	0.309896	-3.592298	0.0006
Institutional Ownership (X3)	-0.013384	0.578959	-0.023117	0.9816
Whistleblowing System (X4)	-0.015095	0.816716	-0.018482	0.9853
R-squared	0.168654	Mean dependent var		-2.076870
Adjusted R-squared	0.127087	S.D. dependent var		0.531098
S.E. of regression	0.496204	Sum squared resid		19.69749
F-statistic	4.057377	Durbin-Watson stat		1.884197
Prob(F-statistic)	0.004790			

The results of the partial hypothesis testing (t-test) are summarized as follows:

The Board of Commissioners variable yields a coefficient of 0.078606 with a p-value (probability) of 0.0544. Since the p-value is greater than the significance level ($\alpha = 0.05$), H_0 is accepted. This indicates that the Board of Commissioners has no significant effect on the Indication of Financial Statement Fraud (Y).

The Audit Committee variable shows a coefficient of -1.113238 with a p-value of 0.0006. As the p-value is less than 0.05, H_0 is rejected. This demonstrates that the Audit Committee has a significant negative impact on the Indication of Financial Statement Fraud (Y), suggesting that more effective audit committees may reduce fraud risk.



The Institutional Ownership variable has a coefficient of -0.013384 and a p-value of 0.9816. Given that the p-value exceeds 0.05, H₀ is accepted. Consequently, Institutional Ownership does not significantly influence the Indication of Financial Statement Fraud (Y).

The Whistleblowing System variable presents a coefficient of -0.015095 and a p-value of 0.9853. Since the p-value is greater than 0.05, H₀ is accepted, meaning the Whistleblowing System has no significant effect on the Indication of Financial Statement Fraud (Y) within this research context.

DISCUSSION

The Effect of Board Commissioners on Indications of Financial Statement Fraud

The statistical analysis reveals that the Board of Commissioners (X₁) has a coefficient of 0.078606 with a probability value of 0.0544 ($p > 0.05$), leading to the conclusion that the Board of Commissioners has no significant impact on fraudulent financial reporting indications within State-Owned Enterprises (SOEs). This finding suggests that the presence of the board, in terms of both size and structural existence, does not automatically function as an effective oversight mechanism to suppress opportunistic management behavior. From the lens of Agency Theory, this insignificance is rooted in severe information asymmetry, where management, acting as the agent, maintains full control over operational data while the board, as the monitoring body, only receives filtered information. Such conditions create loopholes for undetected window dressing or financial manipulation due to the board's lack of direct access to operational realities and adequate independent verification instruments. Institutionally, this phenomenon reflects symbolic governance, where the Board of Commissioners functions formalistically to satisfy administrative and regulatory compliance rather than substantive control. This is further exacerbated by political and bureaucratic appointments that often overlook professional expertise in accounting or risk management. Consequently, a potential for dual loyalty arises, reducing professional skepticism and independence in evaluating the integrity of financial statements. These results align with Shanikat and Aldabbas (2025) and Yiu et al. (2019), who argue that in developing nations with strong state control, bureaucratic influence often undermines internal governance effectiveness. Furthermore, the findings support Martins and Júnior (2020), asserting that governance structures cannot prevent fraudulent financial reporting without high information transparency and audit quality. Ultimately, the effectiveness of the Board of Commissioners in SOEs is not merely determined by its structural existence but is highly dependent on independence, technical competence, and robust institutional support.

The Effect of Audit Committee on Indications of Financial Statement Fraud

Statistical analysis reveals that the Audit Committee (X₂) has a regression coefficient of -1.113238 with a significance value of 0.0006 ($p < 0.05$), leading to the rejection of H₀. This finding demonstrates that the Audit Committee has a significant negative effect on fraudulent financial reporting indications in State-Owned Enterprises (SOEs), suggesting that more effective oversight by the committee substantially reduces the likelihood of reporting manipulation. Within the framework of Agency Theory, this effectiveness serves as a critical control mechanism to minimize agency costs and mitigate information asymmetry between the government as the principal and management as the agent. Consistent with Martins and Júnior (2020) and Nasir and Hashim (2021), a robust governance structure, spearheaded by the audit committee, acts as the principal's extension in detecting red flags and ensuring transparency. In the Indonesian context, an independent audit committee is a fundamental pillar in strengthening internal control systems to close the window of opportunity for fraud (Irwansyah & Zega, 2023; Paminto et al., 2020). Beyond regulatory compliance, this oversight encompasses ethical dimensions that foster public accountability and human resource integrity (Hertati et al., 2019). Consequently, strengthening the audit committee's role is a fundamental strategy for preserving corporate value and stakeholder trust, while simultaneously safeguarding state assets from damaging financial scandals.

The Effect of Institutional Ownership on Indications of Financial Statement Fraud

The statistical analysis reveals that Institutional Ownership (X₃) has a coefficient of -0.013384 with a significance value of 0.9816 ($p > 0.05$), leading to the acceptance of the null hypothesis (H₀). This indicates that institutional ownership has no significant effect on the indication of financial statement fraud in State-Owned Enterprises (SOEs). This phenomenon suggests that the monitoring role of institutional investors, which is theoretically expected to reduce information asymmetry under Agency Theory, does not function effectively within the SOE environment. This is primarily due to the state's dominance as the majority shareholder, which limits the bargaining power of minority institutional investors in supervising management policies. From the perspective of



institutional substitution logic, the strong governmental control and political interventions tend to displace market-based oversight mechanisms, rendering institutional presence a mere administrative formality. These findings align with Yiu et al. (2019) and Tebila and Suryani (2025), who argue that in firms with heavy state ownership, the effectiveness of fraud prevention depends more on internal governance mechanisms, such as audit committees, rather than external investor pressure. Consequently, the proportion of institutional ownership in SOEs does not automatically mitigate the risk of fraudulent financial reporting.

The Effect of Whistleblowing System on Indications of Financial Statement Fraud

Statistical analysis reveals that the Whistleblowing System (WBS) variable has a coefficient of -0.015095 with a significance value of $0.9853 > 0.05$. Consequently, H_0 is accepted, concluding that the WBS has no significant effect on indications of fraudulent financial reporting in State-Owned Enterprises (SOEs). From the perspective of Agency Theory, these findings indicate that the supervisory mechanisms intended to mitigate conflicts of interest between the state as the principal and management as the agent have not functioned substantially. Although the WBS is designed to reduce information asymmetry by providing a reporting channel for internal parties, management's dominant control over information and follow-up procedures renders financial manipulation difficult to detect. This phenomenon aligns with the view of Yiu et al. (2019), suggesting that in economic environments with strong state intervention, alternative governance mechanisms often remain symbolic and administrative rather than executive. Furthermore, the lack of significance reflects weaknesses in the operational quality and transparency of the system. As emphasized by Nasir and Hashim (2021), the effectiveness of corporate governance relies heavily on implementation; without clear feedback and transparent resolution, potential whistleblowers tend to remain passive, perceiving the system as ineffective. In the context of SOEs, this condition is often exacerbated by political complexities and strategic interests that may compromise the independence of internal oversight (Cahyani & Arifin, 2024). Ultimately, the failure of the WBS to influence fraud detection in this study does not invalidate the concept itself, but rather highlights a lack of organizational culture and institutional credibility (Irwansyah & Zega, 2023). To transform the WBS into a credible control mechanism, SOEs must prioritize fundamental reforms in transparency, whistleblower protection, and independent accountability to ensure that the system serves as more than just a regulatory formality.

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