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The Influence of the Audit Committee Characteristics on Fraudulent Financial Reporting

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Abstract: This research explores the impact of audit committee characteristics on potential fraudulent financial reporting, focusing on independence, financial expertise, and tenure. The study utilizes the Beneish M-score index to identify fraudulent financial reporting in manufacturing firms listed on the Indonesia Stock Exchange (IDX) between 2018 and 2021, employing purposive sampling for sample selection. The analysis employs Partial Least Squares (PLS) statistical tools. The results of the study reveal that both independence and tenure of the audit committee significantly influence the occurrence of financial reporting fraud. However, financial expertise within the audit committee does not exhibit a significant impact on fraudulent financial reporting. These findings underscore the importance of an independent audit committee and its tenure in safeguarding against fraudulent financial reporting. Investors are advised to carefully examine the presence of an independent audit committee when assessing potential investments. The research suggests that a robust audit committee, characterized by independence and a longer tenure, plays a pivotal role in mitigating the risks associated with financial reporting fraud. Furthermore, the study recommends a periodic reassessment of corporate governance practices as a prudent step before making investment decisions in a company. This research contributes valuable insights to the ongoing discourse on corporate governance and financial reporting integrity in the context of manufacturing firms on the IDX.

Keywords: Fraudulent Financial Reporting, Independent Audit Committee, Financial Expertise, Tenure of the Audit Committee

1. Introduction

The establishment of audit committees in companies arises from the development of increasingly complex accounting practices and financial regulations in recent decades. Some of the key events and factors influencing the formation of audit committees are financial scandals and corporate failures as example: Scandals such as Enron, WorldCom, and Arthur Andersen in the early 2000s highlighted the need for tighter oversight of accounting and auditing practices. These scandals exposed misleading accounting practices and a lack of independent oversight that allowed financial abuse. Demands from stakeholders such as investors, creditors and regulatory authorities are increasingly demanding corporate transparency and accountability. They expect an independent audit committee that can provide assurance that the audit process is carried out objectively and transparently. This request reinforces the need for an audit committee presence in the company.

In the corporate context, the Audit Committee is a committee established by the Board of Commissioners. In this case the Audit Committee assists the Board of Commissioners in fulfilling its supervisory responsibilities, which include reviewing audited annual reports and financial reports, reviewing the financial reporting process and internal control system, as well as supervising the audit process. In its capacity, the Audit Committee is responsible for opening and maintaining communication between the Audit Committee and the Board of Commissioners, Board of Directors, internal audit unit, independent accountant and financial manager. In terms of membership, members of the Audit Committee are appointed and dismissed by the Board of Commissioners and reported to the General Meeting of Shareholders [1, 2].

The audit committee functions as a vital component of the corporate governance framework, playing a crucial role in internal control. It serves as a key element within the corporate governance structure, responsible for overseeing and supervising management activities. The Capital Market and Financial Institution Supervisory Agency (Bapepam) previously operated under the jurisdiction of the Minister of Finance of the Republic of Indonesia but has now been integrated into the Financial Services Authority (OJK). Bapepam, now under OJK, issues recommendations, regulations, and provides supervision for daily activities in the capital market. In accordance with circular letter KEP-643/BL/2012, Bapepam recommends that public companies establish an audit committee. This committee assumes a pivotal role in monitoring the company's operations and internal control systems, with the primary objective of safeguarding shareholder interests. By actively contributing to the development of the company's strategic plan, the audit committee is tasked with offering insights and recommendations to the board of directors on financial and operational matters. An effective audit committee is essential for enhancing the company's performance and competitiveness, particularly in the face of dynamic business environments beyond the company's direct control. Recognizing that the business landscape is subject to change, an effective audit committee focuses on optimizing shareholder wealth and preventing the potential conflict of interest arising from top management's pursuit of personal gains.

The creation of Indonesia's National Good Corporate Governance Committee underscores the significance of the audit committee. The delineation of roles and responsibilities within the audit committee is articulated in its charter, typically organized into three primary domains: financial reporting, corporate governance, and risk and control management. In May 2002, the National Good Corporate Governance Committee formulated guidelines to establish a proficient audit committee. This committee is entrusted with expressing opinions on accounting matters, financial reporting, internal control systems, and the conduct of independent auditors. The fundamental objective behind instituting an audit committee is to independently oversee the processes of financial reporting and external audit, exercise independent scrutiny over risk and control processes, and independently monitor corporate governance practices. Adhering to good corporate governance principles has the potential to enhance a company's financial performance and elevate the frequency of audit committee meetings. The guidelines for establishing an effective audit committee expound on the requisite characteristics to ensure the implementation of sound corporate governance practices. It is mandatory for all companies listed on the Indonesia Stock Exchange (IDX) to adhere to the recommendations delineated for the audit committee's characteristics [3, 4].

According to Skousen et al., [23] and Zhou & Kapoor [27], fraud is a general term that includes the entire planned human mind, which is used by individuals to obtain greater benefits than the entire group by making false representations. Fraud can be perpetrated in organizations, by organizations, and for organizations. The fraud committed is the intentional omission of amounts or disclosures used to deceive users of financial statements. This fraud can be minimized by having an independent audit committee. The audit committee is expected to be able to exercise control over the company and protect shareholders and other stakeholders. One of the major financial scandals in history was the collapse of the world's largest Public Accounting Firm, Arthur Andersen, who at that time was managing several large companies, including Enron and WorldCom. The big company is still destroyed even though it has been audited by a Public Accountant which is one of The Big Four but has not guaranteed the security of the company's financial reporting. Therefore, an audit committee is needed that is able to maintain the internal control system and supervise the performance of external auditors to realize good governance. The existence of an audit committee has been accepted as a part of good corporate governance and has received positive treatment from the government, such as the Capital Market Supervisory Agency (Bapepam), the Indonesia Stock Exchange (BEI), Investors, Professionals Accountant and Independent Appraisal. According to Al Daoud et al. [2] and Beasley [6] an audit committee is a number of company boards of directors whose responsibilities include assisting commissioners in carrying out the duties of controlling the company and being independent of management. In routine internal meetings, the audit committee reports the results of the tasks assigned by the commissioners in the form of periodic reports. In addition, the audit committee also serves as a liaison between the external auditors and the commissioners. This relates to the review of the risks faced by the company and the company's compliance with all applicable regulations [9, 10].

Apart from having an independent attitude, the audit committee must also have expertise in finance. According to Handajani et al., [10] and Wang et al., [26], financial expertise can be used specifically to directly assess the company's financial reporting cycle and determine whether the company has carried out good financial management in carrying out operational activities. Research conducted explains that the ability of audit committees in the financial sector can reduce the possibility of companies committing fraud. Based on the Financial Services Authority Regulation No. 55/POJK.04/2015 explains that at least one member of the audit committee has financial expertise because the audit committee must understand the company's financial statements. In addition, the audit committee is expected to have knowledge of the company's business, especially those related to the services or business activities of issuers or public companies, the audit process, risk management, and laws and regulations in the capital market sector as well as other laws and regulations. Research by Skousen et al., [23] and Zhou & Kapoor [27] audit committee tenure, multiple director positions have a positive effect on voluntary disclosure ethics. This study shows that short audit committee tenure leads to ineffective audits lack of experience and this results in controls that are not effective in minimizing fraudulent financial reporting.

In carrying out its functions, duties and responsibilities, the audit committee may hold periodic meetings as determined by the audit committee itself. In its meetings, the audit committee may review the accuracy of financial reporting or discuss significant issues that have been communicated to management but, in the opinion of the audit committee, may require follow-up. Skousen et al., [23] and Zhou & Kapoor [27] show that greater meeting frequency is associated with reduced incidence of financial reporting problems and increased external audit quality. Therefore the audit committee meeting is important in carrying out its functions, duties and responsibilities.

Based on the Decree of the Chairman of the Capital Market and Financial Institution Supervisory Agency Number: Kep-643/BL/2012 concerning the Establishment and Guidelines for the Implementation of the Work of the Audit Committee, it is explained that: First, the audit committee holds regular meetings at least once in 3 (three) months. Second, audit committee meetings can only be held if attended by more than 1/2 (one-half) of the number of members. Third, the decision of the audit committee meeting is taken based on deliberation to reach a consensus. Fourth, each audit committee meeting is recorded in the minutes of the meeting, including any dissenting opinions, which are signed by all members of the audit committee present and submitted to the board of commissioners. In addition, the policy for holding meetings is also regulated in the Audit Committee Charter (committee audit charter) contained in the Decree of the Chairperson of the Capital Market and Financial Institution Supervisory Agency Number: Kep-643/BL/2012 concerning the Formation and Guidelines for the Implementation of Audit Committee Work. These things make it important to research the frequency of audit committee meetings in Indonesia.

Bapepam in 2004 requires that the audit committee hold at least the minimum meeting requirements for the board of commissioners stipulated in the articles of association. According to Piot and Missonier-Piera [18] audit committee members need to be active in carrying out their duties. If members of the audit committee are not active in carrying out meetings, the audit committee cannot effectively carry out supervision. The frequency of audit committee meetings is a published record and is available to determine the activeness of the audit committee and as a regulator giving pressure on the need for regular meetings for the audit committee. An audit committee that meets regularly will be a better supervisor in overseeing the financial reporting process.

Several previous studies have shown different results. Therefore, researchers want to re-examine the effect of the characteristics of an independent audit committee, financial expertise, and company characteristics on the possibility of fraudulent financial reporting. Hassan [12] and Lin et al., [16] who used a sample of companies listed on the Malaysia Stock Exchange for the 2005-2010 period, did not include company characteristics as independent variables in their research. Other researchers Al Daoud et al. [2] and Beasley [6] found that audit committee composition evolves as a function of the underlying nature of a firm and its contractual environment. The role of audit committee composition and activity in the contracting process is limited to mixed results. This research makes two contributions, first in company selection, using companies going public in the manufacturing sector as the research population. The reason is that the manufacturing sector has good prospects so many investors are interested in investing and this has implications for the emergence of fraud in financial reporting. Second, the researcher added the financial expertise variable as an independent variable in the study to find out whether the audit committee's financial expertise has an effect on fraudulent acts in financial reporting.

2. Literature Review

Agency theory is a framework in economics and organizational theory that describes the relationship between principals (owners or parties who give authority) and agents (parties acting on behalf of the principal). This theory addresses the agency problem that arises when owners (principals) contract agents to perform tasks or make decisions on their behalf. In the corporate context, agency theory explains the dynamics of the relationship between shareholders (principals) and company management (agents). Shareholders authorize management to manage the company and make day-to-day operational decisions. However, there is information asymmetry and a conflict of interest between the two parties [1, 2].

Some of the key concepts in agency theory include: First: Conflict of interest (Principal-Agent Conflict), there is a conflict of interest between the owner and management of the company because they have different objectives. Owners want to maximize the company's value and their wealth, while management may have more diverse motivations, such as seeking job security or maximizing their personal compensation. This conflict of interest can cause the agent not to act in accordance with the interests of the principal. Second: Moral hazard problem, moral hazard occurs when an agent has an incentive to act unethically or irresponsibly after being given authority. For example, management may tend to take higher risks or act against owners because they do not bear all the negative consequences of their decisions. Third: Information asymmetry, owners often have limited access to the same information that company management has. Management has greater access to internal information and can use it to make decisions that benefit themselves. This information asymmetry increases the risk that the agent does not act in the interests of the principal [11, 16].

To address this agency problem, agency theory proposes a variety of control mechanisms, includings: First, contractual arrangements: Owners and management may use clear, binding contracts to govern their relationship. Contracts can include financial incentives, performance targets, and restrictions on actions against the owner. Second, supervision and monitoring (Monitoring and Oversight): Owners can exercise oversight of management actions through financial reporting, independent audits, and the establishment of an independent audit committee. This helps minimize the risk of an error or fraud going undetected. Third: agency incentives (Agency Incentives): Owners can provide incentives to management to act in the interests of the company and shareholders. These incentives can be in the form of performance-based compensation, management share ownership, or bonus programs tied to achieving business goals.

Agency theory provides an understanding of the complexity of the relationship between principals and agents in the corporate context. Understanding and managing these agency issues, it is hoped that the company can improve corporate governance and ensure that management acts in accordance with the interests of owners and other stakeholders [1, 2].

2.1. Independent Audit Committee

In the Decree of the Minister of State-owned enterprises (BUMN) Number: Kep-103/MBU/2002, the definition of an audit committee is a body under the Board of Commissioners which has at least one member of the Commissioner, and two experts who are not employees of the BUMN concerned who are independent both in carrying out their duties as well as reporting and being directly responsible to the Commissioners or the Supervisory Board. In other words, the audit committee must be an independent person in order to be able to work as a supervisor and reduce conflicts of interest between the company and shareholders. According to Agrawal & Chadha [1] and Anglin et al., [4] the board of commissioners must at least form a minimum of three members to be able to work effectively and efficiently. However, minimal member experience can be a hindrance in the audit committee exercising control. The most important things that an audit committee must have are commonsense, intelligence and an independent view.

In detecting fraud, it is necessary to carry out fraud auditing. Fraud inspection is a proactive audit approach designed to respond to fraud risk. In this case, the audit committee must cooperate with the board of commissioners to check whether there are signs of fraud committed by management, such as:

1. Reviewing the financial information issued by issuers or public companies to the public and/or authorities, including financial reports, projections and other reports related to issuer financial information;
2. Review the compliance with laws and regulations related to the activities of issuers or public companies;
3. Provide an independent opinion in the event of a difference of opinion between the management and the accountant for the services provided.
4. Provide recommendations to the board of commissioners regarding the appointment of an accountant based on independence, scope of assignment, and compensation for services.

Based on the explanation that has been presented, there is a relationship between the independent audit committee and the agency theory, namely the audit committee independently monitors the company as an agent to make decisions and work for the satisfaction of shareholders [1, 2].

2.2. Audit Committee Financial Expertise

Based on the Financial Services Authority Regulation No. 55/POJK.04/2015, members of the audit committee are required to be independent and at least one person has skills in accounting or finance. In addition, members of the audit committee must be able to understand financial statements, business carried out by clients, especially with the services or business activities of Issuers or Public Companies, audit processes, risk management, and laws and regulations in the Capital Market sector and other laws and regulations.

Before the Enron and WorldCom cases, the New York Stock Exchange (NYSE) and NASD required audit committees to have expertise in finance which was presented with audit committee work experience in handling companies. This regulation emerged because basically, an audit committee was formed to oversee the reporting process of opportunistic managers. The Sarbanes Oxley Act of 2002 (SOX) which emphasizes the importance of the role of audit committee expertise in improving the quality of financial reporting, where in section 407 it is stated that at least one member of the committee masters accounting and finance [19, 20]. More over Rezaee [19] states that one of the successes of audit quality is the presence of accounting expertise. This condition indicates the need for a separation between audit committees that have accounting expertise and audit committees that have financial expertise. This is clearly different because accounting expertise has a more specific effect on earnings management compared to financial expertise. In more detail, they suggests that an audit committee financial expert' is defined as an individual who has:

1. Understanding of generally accepted accounting standards;
2. The ability to assess the application of various principles related to accounting estimates, accruals and reserves;
3. Experience in preparing, examining, analyzing or evaluating financial reports; and
4. Understanding of the function of the audit committee.

Based on this discussion, there is a relationship between financial expertise and agency theory, namely that the audit committee in monitoring companies must have sufficient financial expertise, so that the audit committee has an understanding of generally accepted accounting standards, evaluates the company's financial statements.

2.3. Term of Office of the Audit Committee

Members of the audit committee who are experienced in supervising the company have a major influence on the effectiveness of carrying out their duties and the committee already has knowledge about the ins and outs of the company and knows the characteristics of the managers. However, it is different from the case with members of the audit committee whose positions have not been long, they will be easily tricked by managers, who have less experience, and are less effective in carrying out controls.

The tenure of audit committee members will bring higher and more effective performance in monitoring company operations. According Agrawal & Chadha [1] and Anglin et al., [4] to there is a negative relationship between the tenure of audit committee members and earnings management. Thus, this study states that the longer the term of assignment of audit committee members, the more effective oversight of the company will be and will lead to an increase in audit quality. Based on this explanation, there is a relationship between the tenure of the audit committee and agency theory, namely the audit committee in monitoring companies must have sufficient experience, so that the audit committee can work independently without any outside influence.

2.4. Fraudulent Financial Reporting

Fraudulent financial reporting can be defined as treatment by management that deliberately hides fraud by using a strategy of concealment of financial transactions. According to Rezaee [25] management actions that commit fraud can be categorized into several types, namely:

1. First-time offenders. This fraud is also known as pressure, that is someone commits fraud because he has high life pressures. In this case, someone will look for weaknesses in internal control to be able to commit fraud.
2. Repeat offenders. This fraud is different from first-time offenders, because this fraud is done on the basis of opportunity and has been done repeatedly.
3. Organized crime groups. This fraud is carried out by a group of people or it can also be carried out by individuals and are already professional in carrying out these actions. The main factor of this type of fraud is the existence of opportunity, namely weak internal controls, collusion with suppliers and customers, bribery or extortion.
4. Internally committed for the perceived benefits of the corporation. This fraud is committed by trusted employees of the company and is usually done for the good of the company. The basis used is rationalization and justification by all internal parties of the company.

In analyzing fraudulent financial reporting, auditors and audit committees can find it by observing signals. For example, a negative cash flow statement from operating activities when a company reports profit growth is an important signal of the possibility of a fraudulent financial reporting scenario. Some of the frauds commonly committed by companies are fictitious sales, revenue recognition, and misappropriation of assets. IFAC Audit Guide has developed guidelines and methodologies used in fraud risk assessment, especially within the scope of an audit of financial statements [11, 16]. The procedure for assessing the risk of fraud (fraud Risk Assessment Procedure) is carried out in the following stages:

1. Audit Team Discussion. Discussion regarding information obtained by members of the audit team to obtain an integrated belief regarding fraud risk factors that may occur.
2. Identification of Fraud Risk Factors. It is a process of identifying risk factors for fraud that is carried out through the following procedures: direct inquiries to management, observation, and analytical procedures. In carrying out the identification process, both the auditor and the audit committee must be careful in assessing hidden fraudulent financial reporting because management always responds positively to the condition of the company.

2.5. Hypothesis Development

The Influence of the Audit Committee on Fraudulent Financial Reporting.

The Agency Theory states that the board of commissioners delegates its duties to the audit committee to carry out internal controls within the company, and the composition of individuals serving on the board of commissioners is a important factor in creating a board that is an effective overseer of management actions. Azeem et al. [5] and Ferrer [8] found that only 38% of companies that experienced fraud had audit committees that were entirely outside commissioners. Outside commissioners are members who have no relationship with the company other than the possibility of shares. One of the recommendations is a stricter definition of independence that will be applied to all members of the audit committee, including those not having a relationship with the company, its subsidiaries, affiliates or management. Based on the description above, the hypothesis can be formulated as follows:

H_1: The independent audit committee has a negative effect on fraudulent financial reporting.

The Influence of the Audit Committee's Financial Expertise on Fraudulent Financial Reporting.

In Agency Theory, it shows that the performance of managers is overseen by the board of commissioners (principal) which represents the owner of the company. Research by Rezaee [19] and Hassan [11] suggest that an audit committee consisting of at least one member who has a financial or accounting background is more likely to (1) hold longer meetings with the chief internal auditor, (2) provide private private access to the chief internal auditor; (3) examine internal audit proposals and internal audit results. It is assumed that the presence of an audit committee with financial expertise will reduce the possibility of fraudulent financial reporting. Based on the description above, the hypothesis can be formulated as follows:

H_2: The audit committee's financial expertise has a negative effect on fraudulent financial reporting.

The Influence of the Audit Committee Tenure on Fraudulent Financial Reporting.

In Agency Theory it is said that the audit committee on behalf of the board of commissioners representing the owner has the duty and function to oversee the financial reporting process so that financial report manipulation does not occur. For this reason, the tenure of the audit committee that performs internal oversight has an effect on the effectiveness of task implementation. This is based on audit committees that already have a lot of experience tend to have high independence, know clients more deeply and understand the client's business space, and experienced committee members are not easily influenced by management [19, 20]. Based on the description above, the hypothesis can be formulated as follows:

H_3: Audit committee tenure has a negative effect on the likelihood of fraudulent financial reporting.

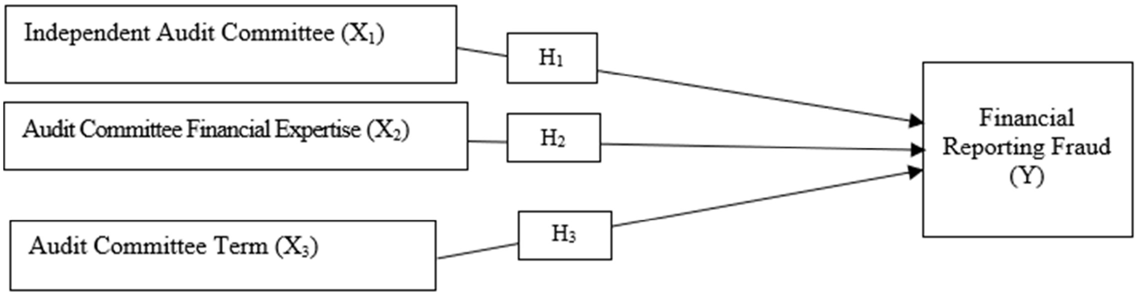

Figure 1. *Research Framework.*

3. Research Method

3.1. Population and Research

The research population uses all companies in the manufacturing industry listed on the Indonesia Stock Exchange (IDX) in 2018-2021. The sample selection used purposive sampling method with the following criteria:

1. Business entities that have been listed on the Indonesia Stock Exchange in the manufacturing sector during the 2018-2021 period which can be accessed through the IDX's official website, namely www.idx.co.id.
2. The entity has an annual report and publishes financial statements audited by an independent auditor for the period 2018-2021.
3. The business entity did not experience delisting during the 2018-2021 period.
4. The entity to be audited uses the rupiah currency as the reporting currency.

Companies that do not commit fraudulent financial reporting or companies that commit fraudulent financial reporting can be identified using Beneish M-Ratio Index Analysis [21, 11]. Beneish M-Ratio Index Analysis uses financial ratios which consist of eight analyses to calculate fraud in financial reporting. The Beneish Ratio Index calculation is formulated as follows:

$$\text{M-score} = -4.84 + 0.920DSRI + 0.528GMI + 0.404AQI + 0.892SGI + 0.115DEPI - 0.172SGAI - 0.327LVGI + 4.697TATA$$

Information:

DSRI= Average daily collection of receivables in one period

GMI= Gross Profit Margin in one period

AQI= Asset Quality Index

SGI= Sales growth in one period

DEPI= Comparison of ratios in one period

SGAI= Sales and administrative costs index

LVGI= Leverage Index

TATA= Total accruals to total assets

If the company has an M-score > -2.22 then the company is detected as likely to have manipulated the financial statements. Meanwhile, companies that have an M-score < -2.22 are detected as having not manipulated their financial reports [17, 22].

Independent variables are variables that explain or influence the dependent variable. The independent variables used in this research are as follows:

3.2. Independent Audit Committee (IAC)

In the attachment to the decision of the Chairman of Bapepam Number Kep.29/PM/2014, the audit committee is a committee formed by the board of commissioners to carry out the task of supervising company management. This is supported by Financial Services Authority Regulation no. 55/PJOK.04/2015 which states more broadly that an independent audit committee is every member who has the following requirements:

1. Not a person in a Public Accounting Firm, Legal Consultant Firm, Public Appraisal Services Firm or other party that provides assurance services, non-assurance services, appraisal services and/or consulting services.
2. Do not own shares directly or indirectly in the Issuer or Public Company.
3. Has no affiliation or business relationship with members of the Board of Commissioners, members of the Board of Directors, or shareholders.

The independence of the audit committee in this research can be formulated as follows:

$$IAC = \frac{\text{Number of independent audit committees}}{\text{Total number of audit committees}}$$

3.3. Financial Skills (FS)

Financial Services Authority Regulation Number 55/POJK.04/2015 regulates independent audit committees, including that each company must have at least one audit committee member who has financial/accounting expertise. The financial expertise possessed by audit committee members has an impact on the audit committee's experience in examining the company's financial reports. In this research, financial expertise is formulated as an indicator of the percentage of members who have financial expertise with all members of the audit committee.

$$FS = \frac{\text{Independent audit committees with finance skil background}}{\text{Total number of audit committees}}$$

3.4. The Audit Committee Tenure (TS)

The tenure of the audit committee is related to how effective the committee members are in carrying out their duties. Audit committees that have a lot of experience tend to have a high level of independence. Audit committee tenure is measured by the percentage of audit committee members who have served five consecutive years [17, 9].

4. Research Results and Discussion

Researchers chose the population in the form of manufacturing companies listed on the Indonesia Stock Exchange during the period 2018 to 2021. The choice of manufacturing companies is because most of manufacturing companies have sum of big amount of fixed assets and also tend to have higher debt and equity compared to companies in other sectors. This is considered in accordance with the characteristics of this study which will examine aspects of income tax and company debt. The sample selection procedure in this study used purposive sampling method.

Table 1. *List of Observation.*

No.	Description	Number of Company
1	Manufacturing companies listed on the IDX during 2018-2021	150
2	Companies that did not profits during year 2018- 2021	(51)
3	Report data is incomplete during 2018- 2021	(60)
4	Financial statements does not use the rupiah currency	(10)
5	Total sample	28
6	Year of observation	4
7	Number of observation (28 x 4 years)	112

Source: IDX (2020)

The PLS Algorithm calculation results show that the value of R Square is 0.612 shows a structural model that describes the effect of audit committee characteristics on financial fraud whole is in the high category to explain the effect of the moderating variable [26, 27].

Table 2. *R Square.*

Variable	R Square	R Square Adjusted
Earning Management	0,612	0,604

Structural Model-Fit evaluation is carried out to determine the relevance of predicting structural models which can be used to test the effect of the moderating variable on the dependent variable and the independent variable. The measure that can be used is the predictive relevance SRMR value, because the two calculation results shows 0,011 two numbers less than 0,1 then the two structural variables have predictive relevance [19, 21].

Table 3. *Structural Model-Fit.*

Description	Saturated Model	Estimated Model
Standardized Root Mean Square Residual (SRMR)	0,011	0,015
Chi-Square	132,42	130,01

The following are the results of the PLS Algorithm processing in the research model as follows:

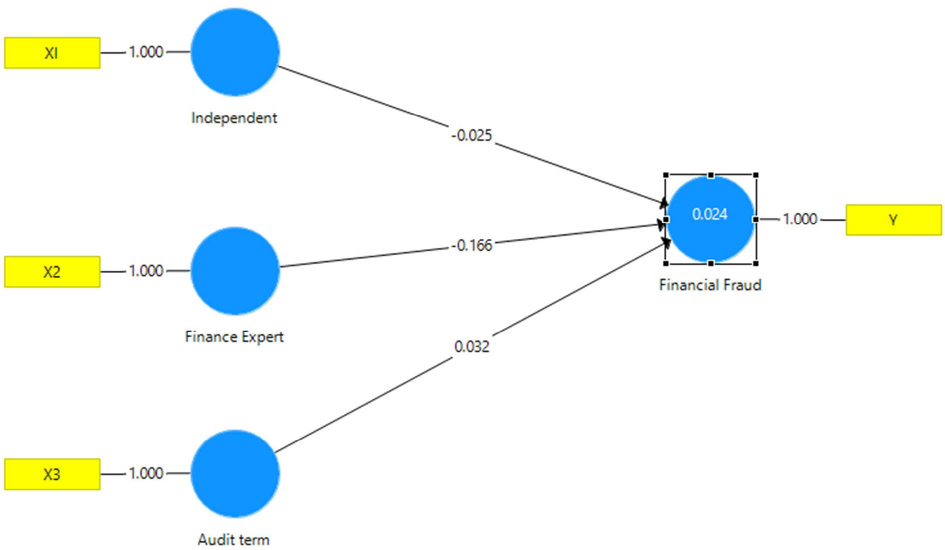

Figure 2. *PLS Model Algorithm Processing.*

Path Coefficients in the table below contain the path coefficient values (the numbers are located in the original sample column). All path coefficients in this study are positive as based on the Path Coefficients table, the researcher can test for each path with the results listed in the table below. A negative sign and p value less than 0.05 indicates that the independent variable has a negative effect on the dependent variable.

Table 4. *Hypothesis Result Path Coefficient Values.*

	Influence Between Pathways	Beta (Original Sample)	Sample Mean	T- Statistic	P-value	Meaning
H_1	The independent audit committee has a negative effect on fraudulent financial reporting.	-0,301	-0,094	5,424	-0,025	The independent audit committee has a negative effect on fraudulent financial reporting.
H_2	The audit committee financial expertise has a negative effect on fraudulent financial reporting.	-0,270	-0,165	3,631	0,166	The audit committee financial expertise has no significant effect on fraudulent financial reporting
H_3	The audit committee term of services has a negative effect on fraudulent financial reporting.	-0,408	-0,217	3,827	0,032	The audit committee term of services has effect on fraudulent financial reporting.

Significant P-value (Sig.) At $\alpha = 5\%$

The results of hypothesis 1 testing show that the independent audit committee (IAC) variable has a negative regression coefficient of -0.025, so it can be interpreted that the higher the level of the independent audit committee, the lower the probability of fraudulent financial reporting. A significance level of -0.025 is smaller than 0.05, which means that the independent audit committee has a negative effect on whether fraudulent financial reporting is accepted. The first hypothesis states that an independent audit committee has a negative effect on fraudulent financial reporting. The test results of the independent audit committee were proven to have a negative effect on fraudulent financial reporting. The results of this research are in line with research conducted by Skousen et al., [23] and Zhou & Kapoor [27] which stated that the more independent audit committee members will minimize the probability of lower fraudulent financial reporting. This is because the independent audit committee does not have special relationships such as business partners or family therefore audit committee will be professional in carrying out its duties and provide a reasonable assessment of the company.

The results of hypothesis 2 testing show that the financial expertise variable (FS) has a negative regression coefficient of 0.166, so it can be interpreted that the higher the level of financial expertise, the lower the probability of fraudulent financial reporting. A level of 0.166 is more than 0.05, which means that financial expertise has a no effect on whether fraudulent financial reporting is accepted. Financial statement fraud often involves ethical violations. Someone who has financial expertise may not have good integrity, so the tendency to commit fraudulent acts remains. Regardless of financial knowledge, organizations need to have a strong monitoring and control system to detect and prevent financial statement fraud. Financial expertise alone will not be enough if there are no effective oversight mechanisms. Research by Rezaee, [19] and Hassan, [11] conclude some financial statement fraud is triggered by pressure from outside parties, such as shareholders or investors who want to see better results. Financial expertise may not be able to overcome this pressure, especially if the pressure makes management feel compelled to manipulate financial statements.

The results of hypothesis testing show that the term of services variable has a negative regression coefficient of -0,048, so it can be interpreted that the longer the term of office, the lower the probability of fraudulent financial reporting. The significance level of 0.032 is smaller than 0.05, meaning that tenure has a negative effect on whether fraudulent financial reporting is accepted. The audit committee members who have served for a long time have more experience and knowledge in terms of monitoring and examining financial reports. They may be more skilled at detecting signs of fraud because of their experience in examining financial reports and interacting with company management. Another reason is that audit committees that have longer terms of office tend to be more independent. They may be more courageous in raising problems and communicating with company management without fear of dismissal or political obstacles. A long term of office can create stability and continuity within the audit committee. This allows committee members to develop a deeper understanding of the company's business and organizational culture, which can help them detect suspicious changes or behavior. The results of this research are in line with research conducted by Nelson & Devi [17] and Robinso & Owens-Jackson [20] which states that there is a negative relationship between the tenure of audit committee members and fraudulent financial reporting. This research states that the longer the term of assignment of audit committee members, the more effective they will be in supervising the company and will lead to an increase in audit quality.

5. Conclusion, Limitation and Suggestions

From the results of research and discussion the following conclusions can be drawn: Independent audit committees have been proven to have an influence on fraudulent financial reporting in manufacturing companies listed on the Indonesia Stock Exchange. This is because the independent audit committee able to carry out its work professionally and can monitor managers effectively. This research found that financial expertise has no effect on the influence fraudulent financial reporting in manufacturing companies listed on the Indonesia Stock Exchange. This is because with the financial statement fraud often involves ethical violations, someone who has financial expertise may not have good integrity, so the tendency to commit fraudulent acts remains. Tenure of office has been proven to influence fraudulent financial reporting in manufacturing companies listed on the Indonesia Stock Exchange. This is because the longer the audit committee gets, the more experience it has in examining the company's financial reports.

Researchers found several limitations in conducting this research that future researchers are expected to be able to add other variables that might influence fraudulent financial reporting, because in this study the independent variable was only able to explain 61,20% of the dependent variable, while the remaining 38,80% was influenced by other variables not included in this study.

Some suggestions that can be put forward in this research are as follows: First, investors need to pay attention to the existence of an independent audit committee and its expertise in reducing fraudulent financial reporting, reassess corporate governance to decide whether they want to invest in the company or not. Second, company management needs to consider further the factors that influence fraudulent financial reporting, and it is hoped that they will be able to improve management performance and the decisions taken before publishing financial reports to the general public in order to create good financial reports.

Conflicts of Interest

The authors declare no conflicts of interest.

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