

Fraudulent financial reporting in public companies in Indonesia: An analysis of fraud triangle and responsibilities of auditors

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ABSTRACT

This study investigates the determinants of fraudulent financial reporting in Indonesia and the responsibility of auditor for fraudulent financial reporting. This study posits that fraud triangle affects the fraudulent financial reporting, and auditors do not give unqualified opinion for fraud firms. The sample consists of 380 firms listed on Indonesia Stock Exchange. The 39 of 380 firms have received punishment from BAPEPAM during 2007-2010 periods. This study uses logistic regression to test the first hypothesis and correlation to test the second hypothesis. The finding suggests that: 1) fraud triangle (opportunity, pressure, and rationalization) does not affect the fraudulent financial reporting; 2) auditor opinion has a positive correlation towards fraudulent financial reporting.

ABSTRAK

Penelitian ini mengkaji faktor-faktor penentu kecurangan pelaporan keuangan di Indonesia dan tanggung jawab auditor terhadap kecurangan pelaporan keuangan. Penelitian ini berpendapat, bahwa triangle fraud mempengaruhi kecurangan pelaporan keuangan, dan auditor tidak memberikan pendapat wajar tanpa pengecualian untuk kecurangan perusahaan. Sampel terdiri atas 380 perusahaan yang terdaftar di Bursa Efek Indonesia. Terdapat 39 dari 380 perusahaan telah menerima hukuman dari BAPEPAM selama periode 2007-2010. Penelitian ini menggunakan regresi logistik untuk menguji hipotesis pertama dan korelasi untuk menguji hipotesis kedua. Temuan menunjukkan bahwa: 1) triangle faud (kesempatan, tekanan, dan rasionalisasi) tidak mempengaruhi kecurangan pelaporan keuangan; 2) opini auditor memiliki korelasi positif terhadap kecurangan pelaporan keuangan.

1. INTRODUCTION

Financial report is the information used by the users of financial statements to make economic decisions (Indonesian Accountants Association 2013). The company's objective is to publish the financial statements is to show the company's financial condition. Financial statements are prepared by management, and management has a tendency to shows that the company's financial condition is well. They do not want the financial statements to show a bad performance. In terms of users of financial statements (shareholders) want the financial statements to reflect the real conditions.

Agency theory says that there is sometimes a conflict of interest between management and shareholders (Jensen & Meckling 1976). The users use

financial statements to see about income information and to measure management success in business. Due to the company's success in generating profits would benefit stakeholders. So that management has strong incentives to manage earnings. This management action will provide an opportunity for management to commit fraud in financial reporting, which cause harm to various interested parties. As was the case on company Enron and the PT. Kimia Farma.

According to the Statement on Auditing Standards No. 99, fraud is an intentional act that results in a material misstatement in the financial statements that are the subject of an audit. Fraud is grouped into three typologies, namely Asset Misappropriation, fraudulent Statements, and Corruption

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(ACFE). Asset misappropriation is the misuse of corporate assets, and this fraud is most easily detected. A fraudulent statement is an action taken by an officer or executive of a company to manipulate financial statements with the aim of obtaining profits. Corruption is an act against the law to enrich themselves or groups. Thirdly there are more common because of weak controls and corporate governance.

In reference to fraud triangle theory, fraud can occur because of the pressure, opportunity, and rationalization (Boynton and Johnson 2006). Pressure factor is an incentive for someone to commit fraud because of the demands of lifestyle, helplessness in the matter of financial, gambling behavior. In this condition, they try to break the system and create job dissatisfaction (Salman 2005). Factor of having opportunities is the opportunity for an individual or group of individuals that commit fraud because of the lack of supervision or internal control of the company. Rationalization is the attitude of a person or group who is looking for a rational justification for the action of fraud. According to the theory by Cressey (Skousen et al. 2009), fraud triangle is typically used to identify the risk of fraud.

Financial reporting is encountered by many cases of fraud committed by companies experiencing financial problems. They tend to cover the actual conditions and, instead, display the financial statements as if it looks good (Carcello and Nagy 2004). Fraud in financial reporting can affect the company's ability to maintain a going concern.

Financial reporting and fraud cases have occurred in large companies both in the world and in Indonesia. Cases at the international level are like the case of company Enron, WorldCom Company, Olympus Corporation, and so on. The cases of fraud in financial reporting that occurred in Indonesia such as PT. Kimia Farma Tbk, PT. Waskita Karya Tbk, PT. Pakuwon Jati Tbk, PT. Sari Husada Tbk, PT. Bakrie and Brothers Tbk, PT. Bakrie Sumatra Plantation Tbk, PT. Energi Mega Persada Tbk and PT. Benakat Petroleum Energy Tbk and airline Batavia Air (www.bapepam.go.id).

According to Skousen et al. (2009), if the audited financial statements contain a fraud, it reflects an audit failure. As it is noted in the Audit Standards section 316 paragraph 01, stating that the auditor is responsible for planning and performing the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement due to error and fraud. Thus, when the audited financial statements, still contain a material misstatement, the auditor is considered to fail in his re-

sponsibilities.

The case of manipulation of financial reporting has increased reaching to 83% of cases of fraud committed by the owners of the company or the board of directors and even more than 50% by management (Brennan and McGrath 2007). Auditor in conducting the audit should be responsible for identifying fraud against the financial reporting for their clients, before the companies suffer from huge losses and led to the cessation of activities of the company (Koroy 2008).

According to the Corruption Perception Index (CPI), the accounting scandal led to the manipulation of financial statements in Indonesia as of December 31, 2014 peaked at number 107 out of 175 countries, measured as the level of corruption. Based on the high corruption perception index is still low in Indonesia and the research on financial reporting fraud tries to identify the factors that trigger companies in Indonesia to conduct financial reporting fraud. Research on the fraud triangle in Indonesia is still relatively small. Most studies of financial reporting fraud in Indonesia identify companies that commit fraud with the indicators of companies conducting earnings management, as research conducted by Kusumawardhani and Kusumaningtyas (2013), Puspatri snanti (2014), Ratnaningdyah (2012), Subroto (2012) and size companies that perform financial statement restatement (Purnama Sari and Eddy 2012).

This study focuses financial reporting fraud at companies that have got sanction from BAPEPAM. This study also identifies the factors led to the company doing financial reporting fraud. The factors used in this study are as based the Triangle approach. These factors include the factors of pressure, opportunity, and Rationalization. After identifying the factors that led to the company commits fraud, this study would associate with the auditor's responsibility for the fraud. The auditor's responsibility is viewed from the opinion given by the auditors, the company that experienced fraud in the financial statements will tend to acquire the auditor's opinion other than unqualified.

This study draws a research by Skousen et al. (2009), about the detection of fraudulent financial reporting by testing the effectiveness of fraud Triangle which includes pressure, opportunity, and rationalization. The proxy of pressure is financial stability, external pressure, internal ownership and financial targets. Proxy occasion is characteristic of the industry, and the internal control structure of the organizations. The proxy rationalization is the turn of the auditor. The research result by Skousen (2009)

states that rapid asset growth, increased demand for cash, external financing, internal and external ownership and control of the board of directors are positively related to the opportunity to do fraud. But, the change of independent auditors is not an effective measure for predicting the financial reporting fraud.

This study is important for several reasons: 1) this study used a sample of public company in Indonesia to obtain from BAPEPAM sanctions on fraudulent financial reporting. This has never been done in previous studies, so the results of this study can be used as input for the regulator (FSA) to make regulations with respect to the prevention of a company that has a tendency to commit fraud, 2) This study also examined the auditor's responsibility for the actions of management to fraudulent financial reporting. Results of this study can be used as input for the auditor to perform early detection for acts of fraud by management.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Garner defines fraud as based on the Association of Certified Fraud Examiners/ACFE (2014) that it is misrepresentation of the truth or concealment of material fact to induce another to act to his or her detriment. Consequently, fraud includes any intentional or deliberate act to deprive another of property or money by deception, or other unfair means. Generally, fraud is defined as an act of fraud (willful misconduct) is carried by a person or group of people for their own interests and harms others. Grouping fraud could be based on the behavior of the actions and the triggering factor. Behaviors that indicate fraud is a lack of proper reporting of assets, financial reporting fraud and corruption. Such behavior is not caused by the three most common factors that include pressure, opportunity, and rationalization.

There are three conditions that put pressure on a person or group to commit fraud, the desire to demonstrate financial stability, pressure from management to fulfill three wishes and excessive pressure to management to meet financial targets set by management. Factors opportunities is the opportunity for an individual or group of individuals commit fraud because of the lack of supervision or internal control of the company. Opportunities commit fraud in financial statements due to industry conditions that have a substantial risk for estimated accounting, ineffective supervision and complex organizational structures (SAS no. 99).

Rationalization is the attitude of a person or group who is looking for a rational justification for

the fraud. This condition can be reflected in the attitude of management in a rational justification for the actions of manipulation of financial statements (SAS no. 99). According to the theory by Cressey (Skousen et al. 2009), fraud triangle is typically used to identify the risk of fraud. Fraud in financial reporting according to Ferdian and Na'im (2006) may involve: (1) manipulation of accounting records or supporting documents for the presentation of financial statements; (2) omission of information in the financial statements; and (3) willful misconduct on the application of accounting principles.

Expectation Gap and Financial Reporting Fraud

Manipulation of financial statements is a type of fraud in financial reporting. Manipulation can occur because of differences in interests between the constituent financial statements (management) by the users of financial statements (shareholders). Different interests usually call for the conflict of interest in the agency theory. In principal, the shareholders want to have a high return on investment, while the management as an agent has an interest to get great compensation (Jensen & Meckling 1976). But, the agency has more information than the principal so that the agent has the opportunity to commit fraud.

The users of financial statements expect the auditors to be able to find and detect fraud in the financial reporting. An auditor must be responsible for the acts of fraud that causes a material misstatement in the financial statements (SAS 99). Based on SAS 99, there are two errors related to fraud that errors arise from fraudulent financial reporting (fraudulent financial reporting) and errors arising from misappropriation of assets.

Misappropriation of assets is often referred to as employee fraud, the theft of the assets of the company which carried out by company employees. On the contrary, the fraudulent financial reporting is a behavior that is intentional or due to carelessness, whether by act or omission. This produces financial statements of materially misleading. Falsified financial statement is for the purpose of defrauding investors and creditors, by increasing the company's stock price, to meet cash flow needs, or hide the company's losses and its problems (Romney & Stainbert 2012).

The auditor should also be responsible for planning and implementing the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement, whether it is caused by error or fraud (SA 316 paragraph 01). However, due to the high complexity of the fraud, the independent auditor cannot be expected to pro-

vide absolute assurance of detecting the misstatements of fraud. This is because in conducting the audit, the auditor uses samples for testing. So it is possible there is a risk of sampling that contains fraud.

The users of financial statements expect the auditor to reveal fraud in the financial statements, but the auditor has limitations in disclosure of fraud. This condition raises the expectation gap between auditors and users of financial statements. Even the public has expectations that all forms of management fraud can be detected and reported by the auditor. When auditing the financial condition, he must be professional as based on the standards of the profession that they must be complied fully with public expectations (Irianto 2003). Irianto also stressed that the position of the accounting profession is very heavy, because in terms of the demands on the detection and reporting of fraud committed by management to change from time to time, while the general public expectations did not change significantly and even tends to strengthen.

Research on Fraud

Many factors can affect the management to manipulate financial statements in order to maintain the financial stability of the company to show that it is good. This can be done by demonstrating the existence of free cash flow. Free Cash Flow is one indicator of a company's abilities to return profits to shareholders. Free cash flow can be used to describe the dividend payments, pay off debt, treasury stock or saved to expand the company in the future. Free cash flow is positive is good information for the company, while a negative free cash flow of bad information for the company, so that companies have a tendency to show a positive free cash flow or tend to fraud in financial reporting.

Companies with high free cash flow are expected to be more able to survive in a bad situation, while the company with negative free cash flow indicates insufficient internal funds for investment needs, thus requiring funds from external parties (Rosdini 2009). The amount of total assets of the company is an indicator of the size of the company. Companies with total assets show that they are experiencing growth. Companies experiencing growth indicates that the company's financial condition is good. So if the company is not experiencing growth, management tends to manipulate the financial statements in order to attract financial statements for potential investors. But growth that is too high is not good information, as this tends to be an indication the company commits fraud in financial reporting

(Mulfred 2010).

Financial performance such as the company's profit is one of the information that is needed by the various parties. Therefore, the company that has a good performance is good and it is beneficial information for the company. In contrast, if the company bears the loss in activity, it shows a bad condition for the other parties. Thus, the companies tend to manipulate the financial statements in order to obtain profit. This also happened in Enron, which was the largest energy company in the world. The company's ability to generate profits, which can be seen from the value of return on assets, is also important information for potential investors and related parties.

Return on assets (ROA) can be used to measure the company's ability to generate profits overall. Companies that are able to produce high ROA increased from period to period are nice and interesting information for potential investors (Dendawijaya 2005). So if ROA was low, and even increase, the management companies tend to manipulate the financial statements that the financial reports of interest to potential investors and other interested parties. According Lestari and Sugiharto (2007) ROA figures can be said to be good if exceeding 2%. ROA can help companies that have run well accounting practices to be able to measure the overall efficiency of capital use, so that can know the position of the company against the industry.

The rate of return is a picture of the effectiveness of management accounts receivable, the higher the turnover, the better management of receivables. The accounts receivable turnover rate can be higher in a way to tighten lending policy sales. The effectiveness of this policy can be seen from the average number of days refund receivables. The faster the rate of return on accounts receivable, the more effective the policy is. The longer the rate of return on accounts receivable, the more likely doubtful account is. Thus, it could jeopardize the company into bad condition when the receivables loss provisioning by the company are insufficient.

The companies with an average return of old accounts is information that is not good for the company and potential investors, so the company's management has a tendency to manipulate their financial statements in order to appeal to potential investors and other interested parties. Subroto (2012) examined the characteristics of the company and the characteristics of the external auditors to fraudulent financial reporting. The characteristics of the companies are measured by ROA, the change in total assets, leverage, financial distress and a life of the

Table 1
Sample of the Research

Description	Total
Companies listed in Indonesia Stock Exchange in 2007-2010	397
The incomplete data	17
Sample number:	
Companies violated the law and got sanction by the BAPEPAM (56)	380
Companies that did not get sanctions (324)	

company. While the characteristics of the measured external auditor and the auditor tenor is KAP status. Meanwhile, companies that commit fraud reporting measured using a dummy variable (1 if doing fraud, and 0 otherwise commit frauds). The result is that all variables showed no significant effect.

Fraud could be minimized if there is a good oversight mechanism. Monitoring mechanism could be done by establishing a system of internal control of the company. As stated in the mechanisms of good corporate governance, one of the monitoring mechanisms is to establish an audit committee. The audit committee serves as a watchdog over the entire activity of the company. Audit committee members must be at least 3 people and one of them (30%) must be independent members from outside the company. Expectations of the independent members here is that the supervision of the company can be done as objectively as possible, so that all forms of cheating can be detected. The company's obligation to establish an audit committee has been conducted since 2001, by the issuance of BAPEPAM circular letter number SE-03/PM/2001. The greater the numbers of independent audit committees, the lower the chances of the company manipulate its financial statements.

Companies with the complexity of issues can affect the internal control mechanisms. For example, companies with many subsidiaries, especially when they are outside Indonesia and using foreign currency transactions. This can make another problem in the monitoring mechanism. Companies with high complexity of the problems provide opportunities for weak controls; this will encourage management to commit fraud against its financial reporting. Respati (2011) examines the determinants of the behavior of managers in conducting fraudulent financial statement presentation. The results show that the ethical climates influence the attitudes and norms to the intention to commit fraud manager financial statement presentation. Soselisa and Mukhlisin (2008) state that the composition of current assets, the size of the company and the auditor's opinion a significant effect on the tendency of accounting fraud. Gagola (2011) investigated the factors that affect financial reporting fraud, the result is financial

leverage, capital turnover and asset composition significantly affect the tendency of fraudulent financial reporting.

Bai et al. (2008) found evidence that Chinese companies which carry out fraudulent financial reporting have characteristics of receivables ratio, the ratio of high dosage towards current assets, high cost to the percentage of revenue, total liabilities were higher than current revenues and lower debt than income. Subroto (2012) examined the characteristics of the company and the characteristics of the external auditors to fraudulent financial reporting. Characteristics of the companies are measured by ROA, the change in total assets, leverage, financial distress and a life of the company. Yet, the measured characteristics are the external auditor and the auditor tenure and status of KAP. Meanwhile, companies that commit fraud reporting measured using a dummy variable (1 if doing fraud, and 0 otherwise commit frauds). The result is that all variables showed no significant effect.

George (2009), Carcello and Nagy (2004), Geiger and Raghunandan (2002) found evidence of fraudulent financial reporting tends to occur in the early years of the audit engagement. This is because the lack of knowledge about the client auditor.

Based on the theory mentioned above, and based on several studies that have been done, then the hypothesis proposed in this study are as follows: H1: Pressure, opportunity, and rationalization affect the propensity of companies to do the financial reporting fraud.

H2: The act of fraud financial reporting is positively related to the auditor's opinion in addition to qualified without exception.

3. RESEARCH METHOD

Population and Sample

The population in this study is all companies listed on the Indonesia Stock Exchange in 2007-2010. The method of sample selection was purposive sampling. Criteria for selection of sampling are as follows: (1) public companies publish annual reports; (2) Data available complete. This study uses sample only public companies listed on the Stock Exchange from the year 2007-2010 due to corporate data to

obtain sanction from BAPEPAM only until 2010.

Data and Data Sources

The data are secondary data from the companies that obtain sanction from BAPEPAM, obtained from www.bapepam.go.id; and the annual report of companies listed in the Indonesia Stock Exchange gained from www.idx.co.id.

Variables and the Measurement

The dependent variable in this hypothesis is the company indicated to doing fraud, measured using a dummy variable. It has the value of 1 when the company is found guilty of doing fraud and the value 0, when not guilty. On the other hand, the independent variable consists of the pressure factor (Free cash flow, profit or loss, return on receivables, ROA, the growth of the company), factor of chance (complexity of the company and the effectiveness of control), and rationalization factors (change of auditors).

Data Analysis

The first hypothesis is tested by means of logistic regression model with the following regression equation:

$$FR = \beta_0 + \beta_1 FCF + \beta_2 LOSS + \beta_3 AR + \beta_4 GROWTH + \beta_5 ROA + \beta_6 SUBS + \beta_7 INDP + \beta_8 AUDCHANGE + \varepsilon \quad (1)$$

In this case:

FR = fraud, measured using dummy variables. The value is 1 when the company is found guilty of doing fraud, and the value 0, when the company is not found guilty.

FCF = free cash flow

LOSS = dummy variable, with 1 when the companies suffer losses and 0 for companies that earn profits

AR = ratio of debt repayment

GROWTH = growth companies (1 if it grows, 0 if it does not grow)

ROA = return on assets

SUBS = Complexity companies measured by the number of subsidiaries.

INDP = Effectiveness of internal control is measured from the number of audit committee members are independent.

AUDCHANGE = Substitution auditor is measured by a dummy variable, 1 if a change of auditors, and 0 if not.

ε = error term.

The second hypothesis is tested by using a correlation test. The dependent variable is the auditor's opinion, while the independent variable in this hypothesis is fraudulent financial reporting, which is measured using a dummy variable, coded 1 if the

Table 2
Descriptive Statistics

Variables	N	Mean	Std. Deviation
FCF	380	-.0124	.1058
LOSS	380	0.6243	1.9830
AR	380	29.2905	28.7433
GROWTH	380	0.1561	1.4331
ROA	380	0.1440	1.4661
SUBS	380	6.000	0.4521
INDP	380	2.000	.6070
AUDCHANGE	380	0.781	2.5420

Table 3
Results of Logistic Regression Testing

Variables	B	Wald
FCF	-19.968	2.465
LOSS	-.711	.174
AR	-.163	1.168
GROWTH	1.251	1.144
ROA	-1.092	.770
SUBS	.340	.119
INDP	20.013	.000
AUDCHANGE	.050	.629
Constant	-.164	.003*
Chi-square		8.831*

Table 4
Correlation Test Result

	Pearson Correlation
Opini-Fraud	0.075*

*Significant at alpha 0.05.

company commits fraud and code 0 if not. The auditor's opinion is measured using an ordinal scale, one if his opinions unqualified, 2 if his opinions unqualified with additional explanatory paragraph, 3 if a qualified his opinion, if his opinion is not reasonable 4, and 5 if his opinions refused to give an opinion.

4. DATA ANALYSIS AND DISCUSSION

Results Sample Selection

The population consists of all companies listed on the Indonesian Stock Exchange in 2007 until 2010, a total of 397 companies. The companies are identified offenses and sanctions from BAPEPAM totaling 56 companies. Based on the sample selection criteria, there are 17 companies which completed the available data, so the total sample is 380 companies. The companies that commit violations and sanctions of BAPEPAM are presented in Table 1.

Descriptive Statistics

Descriptive statistic that includes the mean and standard deviation of all variables in this study are

presented in Table 2. Based on the results on Table 2, the average free cash flow is -0.0124. This indicates that the company cannot return the profits to shareholders through debt reduction, increased dividends or treasury stock. Or in the sense of the company's financial condition is not good. The average company that received sanction from BAPEPAM has poor financial performance. And, the average number of subsidiaries is 6 subsidiaries, with a maximum value of 24 subsidiaries while the average speed is the receivable by 29 days. This indicates that most of the companies that received sanction from BAPEPAM have a rapid rate of return on accounts receivable. Average Return on Assets Sample Company is 0144; it indicates that the company's ability to bring in profits is lower.

The percentage of the company makes a profit as much as 64.1% and companies that have losses were 35.9%. This indicates that most of the companies are indicted for fraud in financial reporting is a company that makes a profit in the year of observation. Companies that obtain an unqualified opinion as much as 25.6%, while the companies that obtain reasonable opinion without exception with an explanatory paragraph as much as 74.4%. This indicates that most of the companies are indicted for fraud in financial reporting is a company that already has fairness in its financial statements, but there are some things that need explanation.

Companies that make the turn to auditor is 59% and those that do not make the turn auditor is 41%. If seen from the percentage, then the company is doing and not replacing the auditor is comparable. Most companies were identified to have committed fraud and those which did not experience growth is 74.4%. Meanwhile, the company that grew is only 25.6%.

Analysis of Hypothesis 1

Hypothesis 1 was tested by logistic regression. Results of the test of the first hypothesis are presented in Table 3. The first hypothesis in this study suspected fraud triangle no influence on the financial reporting fraud in Indonesia. The first step is to test the accuracy of the model with the Hosmer and Lemeshow test. Based on Table 3 above, Chi-square value of 8.831 has a significance value of 0.52. The significance value is greater than 0.05, so this research model deserves to be tested. Meanwhile, the next step is of all independent variables tested. None of the variables significantly affects the fraud. If viewed from the descriptive statistics, the average free cash flow is negative.

However, the companies whose value is a nega-

tive free cash flow are not guilty of doing fraud. And, the average number of subsidiaries is 6 companies, the number of independent audit committees an average is 2 people, the rate of return on average accounts receivable is 29 days, the number of companies that earn profits as much as 64%, the number of companies that did not grow as much as 74% as well as the number of companies that make the turn auditor as much as 59% cannot prove the company commit fraud against the financial reporting.

Test Results of Hypothesis 2

Hypothesis 2 was tested by correlation. The second hypothesis test results are presented in Table 4. The second hypothesis assumes there is a relationship between the auditor's opinions with companies that commit fraud. Based on Table 4, the auditor's opinion proved to be positively related to fraud. This is indicated by a correlation value of 0649 and significant.

Companies that indicated to fraud tend to get different opinions with companies that are not guilty of fraud. This is because the auditor is responsible for identifying; analyzing, and revealed the existence of fraud in the financial statements they audit (SA 316 paragraph 01). Therefore, if the company is guilty of fraud, the auditor will express it in its audit report.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Fraud usually occurs because of weak internal controls. In other words, fraud is related to the company's internal control weaknesses and irregularities (non-compliance) of the statute (regulation) which is applicable, both of which became the basis of the criteria in determining the auditor's opinion. Auditor responsible for the fraud, ranging from the planning stage of the audit, the audit, to audit reporting. Thus, if fraud is found, it will be disclosed in the independent auditor's report.

Fraud can be detected not only through the process of audit by public accountants, but also by more comprehensively the role that involves management, internal auditors, forensic auditors and other related parties. An auditor is just part of the whole chain of corporate financial reporting and prevention. The detection of fraud requires the cooperation of the parties involved in the financial reporting. Such as management, board of directors, standard setters and regulators is a key element in the implementation of corporate governance. For that reason, the implementation of good corporate governance leads to a positive impact on the reduc-

tion of fraud in financial reporting companies (Amiruddin and Sundari 2012).

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