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Structure of Corporate Governance Important to Reduce Manipulation of Financial Statement: The Empirical Studies in the Indonesia Context

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Abstract

The structure of corporate governance in Indonesia is rather different than the other countries, especially the structure of the supervisory board, but in general, it has still similarities. How important is the corporate governance structure to reduce the manipulation of a financial statement? This question is a fundamental question of this research. The current rumors which are spreading, fraudulent financial statements are massively happened, not only in Indonesia but also in many countries around the world which experience the same problem. Our study aimed to analyze the structure of corporate governance towards financial statement manipulation. We used sample data of manufacturing companies in 2016. We used logistic regression to test hypotheses which explain the impact of fraud on corporate governance. The researcher used the Beneish Ratio Index which is introduced by Beneish (1999) to detect fraudulently on financial statements. In general, our findings supported the hypothesis, except for three hypotheses which test three variables, namely the concentration of ownership, the independent commissioner portion and the use of big four Accounting Firm. Our findings show that the Indonesian audit environment especially auditor has low motivation to provide high-quality audits.

Keywords: *Corporate governance, Manipulation, Financial statement fraud, Indonesia*

1. Introduction

Financial statements are instruments which are quite sensitive toward the market. The financial statements will be difficult to rely on information, if there are various reports related to fraud cases or fraudulent actions in the company, and implicate to the reduction of market confidence and investors, such as the Enron cases, Global Crossing, Tyco, World Com cases which have made a loss of market capitalization in the USA, estimated at around US\$ 465 (Cotton, 2002), as well as in Europe, it has been a loss of approximately EUR 1.8 billion in the case of Parmalat Company. The fraud cases increased sharply from the COSO report in 1999. The accounting scandals occurred in the early 2000s where large companies involved in fraud contributed nearly 120 billion US \$ with cumulative misstatements or misuse over a 10-year period.

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It not only happened in advanced countries but also in developed countries, the developed countries are also a "nest" of corporate fraud. For example in Indonesia, it happened in the Toshiba corporate in 2015. Toshiba has shocked the rest of the world when the company is in the process of a strict investigation, due to allegations of fraud and accounting scandals in the last three years. Toshiba is a very influential Japanese company, so this incident can hardly be trusted. After a thorough investigation, the fact appears that the company has not been able to reach its profit target since 2008 when there was a global economic crisis. This financial crisis also shook Toshiba's business comprehensively, and caused management to cheat financial statements worth approximately US \$ 1.22 billion, as a result the company made a profit presentation that was not in accordance with the facts. Another case, in 2018, PT Sunprima Nusantara Pembiayaan (SNP Finance) get more attention from financial and public authorities. This finance company approximately operates around 18 years, turns out to be on the verge of bankruptcy (Baderi, 2018). The company's debt rating changed dramatically from stable to idSD (selective default) on May 9, 2018. It is because of one of Medium Term Notes (MTN) coupons issued by SNP default. As a result, the Financial Services Authority (OJK) froze the SNP business activities because this company failed to pay MTN interest mounted Rp 6.75 billion on May 14, 201, through a Letter of Deputy Commissioner Supervisor of IKNB II No. S-247 / NB.2 / 2018. It is suspected that the SNP Finance did not submit the financial statements correctly, so the rating company and the auditor did not issue a warning before a default occurred. The issue of financial statements is very vital and often becomes a big problem for a company if it is not managed properly (Kulsum, 2018).

Supervision of companies which is listed on the Indonesia Stock Exchange (IDX) is carried out by Bapepam-LK, which is today become the Financial Services Authority (OJK/FSA). The FSA is in charge of overseeing companies which are suspected of conducting violations and giving sanctions in the form of written warnings or fines for those which are proving to have done a violation, one of the violations such as an error in the presentation of financial statements (misstatement or overstatement). The rules which form the basis regulation are the Decree of the Chairperson of Bapepam and LK Number: Kep-347 / BL / 2012 Date: June 25, 2012 rule number VIII.G.7: The presentation and Disclosure of Financial Statements of Issuers or Public Companies. In the 2015-2016 period, the Financial Services Authority (FSA) has provided 841 administrative sanctions to capital market industry players, or increased if it is compared to 2014 which reached 777 sanctions. From 841 sanctions, 146 sanctions in the form of written warnings, 685 sanctions in the form of fines, two sanctions for revocation of licenses and eight other sanctions in the form of license suspension. 146 sanctions for written warnings consist of 139 sanctions because the issue is late in announcing financial statements and 7 sanctions due to violations related to cases in the capital market sector in addition to the obligation to announce financial statements. Then as many as 685 other sanctions in the form of fines for late submission of periodic reports and incidental reports with a total value of a fine of Rp 11.5 billion.

This result is expected to provide benefits for the development of GCG concepts and internal control for fraud prevention in the company. Reflecting on the explanation above, it raises research questions; corporate governance reform in Indonesia as part of institutional innovation, is it able to control the vulnerability of financial fraud? Of course, to answer this question, in-depth research must be carried out on public companies in Indonesia. The next stage will be presented a theoretical framework and the development of hypotheses to conduct the theory and the development of empirical research. Then, it will be presented a methodology for measuring variables, analysis tool, and data collection models. The next section will present the results of research and discussion related to findings, and the last is conclusions and limitations.

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2. Related literature

Theory in the psychology point of view is used to explore fraudulent acts of corporate financial reporting in Indonesia and the extent to which corporate governance is able to prevent this fraudulent behavior. The theory which was built tried to explain more in the relationship between two variable. We believe the fraudulent act arises from individual behavior, the appearance of financial information which is illegally manipulated. Snell et al. (2006) said that individuals try to manipulate the institutional environment in where they work. The first thing is related to individual perceptions that can influence their behavior (Pierce and Aguinis, 2013; Capezio et al., 2014). This case encourages the use of limited rationality theory or commonly called bounded rationality theory, which is introduced by Simon (1976). The concept of bounded rationality is an idea when a person makes a decision, the individual's rationality is limited by the traceability of the decision problem, their cognitive limitations, and the time available to make that decision. Individuals who make decisions act to their satisfaction, not as a solution to existing problems. Relate to this study, individuals are management involved in cases of fraudulent financial statements. Individuals are more likely to concentrate on short-term benefits caused by limited conditions of perception and knowledge, Bell and Carcello (2000) consider that limited conditions of perception and knowledge as one of the causes of fraudulent financial report actions.

It is different from other resources in the company such as assets, land, material, and experts, financial statements are objects which are relatively easy to manipulate. The existence of financial statements is a source of information for corporate decision making. The management will try to provide good information on purpose to show that the company has a good performance, to increase funding from investors, it is different if the company's performance is in poor condition, the intention arises from management to make false reports, so that the company's performance will look better (Yang et al., 2017). This case is related to institutions, the control of the institutional environment where top management works is determined by the management structure, which states that corporate governance is a controlled and systematic structure which can be seen as a method of monitoring policies, actions, activities and how a managerial decision is taken in running company (Fama and Jensen, 1983). The structure of corporate governance must be arranged effectively, in purpose to avoid any fraud. The management element will provide mutual supervision to each other.

3. Data and materials

As a tool for testing hypotheses, we use logistic regression that explains the impact of corporate governance on fraud. Logistical regression is used on the grounds that the dependent variable, in this case, is the fraudulent act of financial statements is a nominal type variable (dichotomous variable). The use of logistic regression is considered appropriate because the aim is only to explain, not to predict, as used by Yang et al. (2017). The measurement of fraudulent financial statement variables using the Beneish Ratio Index. Beneish (1999) suggests a theory which states that there are several predictors of financial report manipulation which can be used. The benchmark ratio index used to detect manipulation in the financial statements with way takes steps to use the ratio index to determine which companies are classified as a company that manipulates (manipulator) and others (non-manipulator).

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The Beneish M-Score model is a mathematical formula developed by Messod Daniel Beneish. The Beneish model is formed from several indicators to identify the occurrence of fraud in financial statements (Jones et al., 2008).

Fraud indications can be seen from the range of numbers generated by mathematical calculations, the results of the M-Score less than -2.22 results the company does not manipulate, but vice versa if it is greater than -2.22 companies manipulate financial statements. This model is very useful for identifying fraud in financial statements. Some elements used are formulated in the following equation:

$$M\text{-score} = -4.84 + c1DSRI + c2GMI + c3AQI + c4SGI + c5DEPI + c6SGAI + c7LVG + c8TATA \quad (1)$$

The measurement of independent variables varies, starting from Foreign Investors (Foreign), measured by dummy variables with 1 (one) for manipulator companies and 0 (zero) the other, then International Commissar Experience (IntExp) is measured by dummy variable with 1 (one) if the company has a commissioner with international experience during the analysis year and 0 (zero) otherwise. Then for the distribution of share ownership, there are two variables namely Ownership Portion (we give notation as Portion) measured by the percentage of the largest shareholders divided by the second largest shareholder share, and State (SOEs / POEs) variable dummy variable with 1 (one) for state-owned shareholders and 0 (zero) if not. The Supervision and Audit variable has two sub-variables, namely the Board of Commissioners (Com) measured by proportion of independent commissioners from the total members of the board of commissioners, and Audit Committee variables (AuCom) measured by dummy variable with 1 (one) if the company has an audit committee during the analysis year and 0 (zero) otherwise.

Table 1. Variable measurement

	Variable	Variable Measurement
Fraud	Fraud of financial statements	Dummy variable with 1 (one) for manipulator companies and 0 (zero) if not
International involvement	Foreign Investor (Foreign)	Dummy variable with 1 (one) if the company has foreign investors and 0 (zero) otherwise
	International Commissary Experience (IntExp)	Dummy variable with 1 (one) if the company has a commissioner with international experience during the analysis year and 0 (zero) vice versa
Share owned	Owned Portion (Portion)	The largest percentage of shareholders is divided by the percentage of the second largest shareholder
	BUMN/BUMD (SOE)	Dummy variable with 1 (one) for SOE shareholders and 0 (zero) otherwise
Supervision & Audit	Commissioners board (Com)	The proportion of independent commissioners from the total members of the board of commissioners
	Audit Committee (AuCom)	Dummy variable with 1 (one) if the company has an audit committee and 0 (zero) the other
External Auditor	Big-4	Dummy variable with 1 (one) when company is affiliated with one of the Big-4 and 0 if not.
	Accounting Firm length service (Tenure)	Accounting Firm length service
Regulator pressure	Regulation pressure (Pressure)	Dummy variable with 1 (one) if a company experiences regulatory pressure and 0 otherwise
	New Company (New)	The length of time a company is listed on the Exchange market, 1 - 3 years dummy, given a

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value of 1 (one), another 0 (zero).

External Auditor variable has two sub-variables, Big-4 measured by the dummy variable with 1 (one) when Accounting Firm is affiliated with one of the Big-4 and zero if not and Accounting Firm Work Period (Tenure) is measured with the length of service Accounting Firm. The last Regulator Pressure variable, with two derivative variables, namely Regulatory Pressure (Pressure) measured by dummy variables with 1 (one) if a company experiences regulatory pressure and 0 (zero) vice versa, and New Company (New) measured by the length of time a company is listed on the market Stock, so we formulate logistic regression equations as follows:

$$\ln \left(\frac{\text{Fraud}}{1-\text{Fraud}} \right) = \beta_0 + \beta_1 \text{Portion} + \beta_2 \text{SOE} + \beta_3 \text{Com} + \beta_4 \text{AuCom} + \beta_5 \text{Big4} + \beta_6 \text{Tenure} + \beta_7 \text{Preasure} + \beta_8 \text{New} + e \quad (2)$$

We use the population of all listed public companies in the manufacturing category with the criteria to publish their financial statements for the 2016-2017 financial year continuously. The use of manufacturing is because there are asset calculations in the Beneish Ratio Index, which must be uniformed by issuing financial and service companies. Sampling uses purposive sampling, sample criteria determined as follows: (1) Listed public companies in the manufacturing category on the Indonesia Stock Exchange (IDX) since 2015 - 2017 financial year continuously; and (2) The manufacturing company issues financial statements as of December 31st, 2017 and as of December 31st, 2016.

Based on sample screening, there were 146 manufacturing companies that met the sample criteria. After calculating using the Beneish Ratio Index, there are 43 manufacturing companies indicated manipulated or cheated financial statements since 2016. The use of logistic regression used 43 companies to commit fraud and paired 43 non-fraud firms simple random. This paired approach was conducted by Yang et al. (2017), so that the total sample was 86.

4. Findings

There are several specific criteria for variables, both financial reporting fraud variables and variables which affect financial reporting fraud. The following table will be presented in detail the differences between the two. As mentioned in the previous section, there were 43 companies which indicated fraudulent financial reporting, and as a comparison, 43 companies which did not conduct fraud were taken in simple random sampling.

Based on the tabulation above it can be mapped that Basic and Chemical Industry companies are more dominant in fraudulent actions followed by Various Industries, while the lowest is the Consumer Goods Industry. In general, companies which are in the manipulator group have foreign investors, with only around 3.2% of companies having foreign investors, as well as commissioners who have the international experience of only 11.5%. Then for State ownership variables, only about 3% companies which conduct fraud, for the proportion of independent commissioners as much as 46.31% sample companies have a dominant portion of independent commissioners, followed by 67.42% sample companies have audit committees.

Most companies use Big-4 affiliated Accounting Firm with Big-4 affiliated Accounting Firm of 71.55%. the rest companies use small non-Big4 Accounting Firm. the average manipulator company uses Accounting Firm in a short time. Through the

2 calculation of profit growth. it was found that around 12.2% of the manipulator companies experienced a decreasing in profits. which were considered as companies under regulatory pressure. and as many as 14.2% were included in the new company category.

We use the Logistic Regression statistical tool or logit to test the hypotheses which are presented in the previous section. The results of the chi-square analysis showed significant results so as to describe the accuracy of the independent variables as explanatory variables. Testing the feasibility of the model in logistic regression using chi-square, as an embodiment of Hosmer and Lemeshow's Goodness of Fit Test. The Goodness of Fit Test of Hosmer and Lemeshow tests the null hypothesis which states that the empirical data tested matches the model being built. The indication of acceptance of the null hypothesis is that there is no significant difference between the model and observation, the results of the statistical value of the Goodness of Fit Hosmer test and Lemeshow are equal to or less than 0.05, then the null hypothesis is rejected, the Chi-square value analysis of 42.345 with sig 0.014. Furthermore testing the coefficient of determination using Nagelkerke's R square, the results of the analysis showed that the value is 46.4%.

Table 2. Classification of manufacturing companies that enter samples

Type of Manufacturing Company	Manipulator	%	Non-Manipulator	%
<i>Basic and Chemical Industry</i>	17		17	
Cement	1	2.3	2	4.7
Ceramics, Porcelain & Glass	2	4.7	2	4.7
Metals & a similar thing	2	4.7	3	7.0
Chemical	2	4.7	1	2.3
Plastic & Packaging	2	4.7	1	2.3
Animal feed	2	4.7	2	4.7
Wood & Processing	2	4.7	1	2.3
Pulp & Paper	1	2.3	2	4.7
Etc.	3	7.0	3	7.0
<i>Various Industries</i>	16		13	
Machinery and Heavy Equipment	2	4.7	2	4.7
Automotive and Spare part	2	4.7	2	4.7
Textiles and Garments	2	4.7	2	4.7
Footwear	2	4.7	2	4.7
Wire	2	4.7	2	4.7
Electronics	2	4.7	2	4.7
Etc.	3	7.0	1	2.3
<i>Consumer Goods Industry</i>	11		13	
Food and beverages	3	7.0	1	2.3
Cigarettes	2	4.7	3	7.0
Pharmacy	1	2.3	2	4.7
Cosmetics & Household appliances	2	4.7	2	4.7
Household appliances	1	2.3	3	7.0
Etc	2	4.7	2	4.7
Total	43		43	

Based on the statistical analysis, it was found that the foreign ownership variable in the proportion of the company's share ownership had a negative and significant effect, meaning that the fraudulent company apparently had a low portion of foreign ownership, and the commissioner's international experience had a negative and significant effect have

1 experienced international commissioners, very little portion. The descriptive statistical results explain this, companies which conduct foreign ownership fraud are only 3.2%, as well as commissioners with international experience who only have 11.5% of the sample manipulator companies.

Our findings for ownership variables, Ownership Portion negatively and has no significant while the state ownership variable (SOEs) negatively and significant. This finding indicates that the more concentrated share ownership, the company will tend to fraudulent unproven financial statements, while companies, where the State is the majority shareholder more likely not to conduct fraudulent financial reporting, can be supported significantly. In terms of supervision, our allegations are related to independent commissioners, that companies that have a smaller composition of independent commissioners than non-independent commissioners are increasingly opening up opportunities for companies to commit financial reporting fraud, insignificant and cannot be supported. However, our assumption the supervision of the audit committee which has Audit committees can easily cheat financial reporting, can be supported and have a significant effect.

Table 3. The analysis results of logistic regression

Variable	Coefficient	P-Value
Foreign investor (Foreign)	-0.093	0.031**
International Commissary Experience (IntExp)	-0.113	0.043**
Owned Portion (Portion)	-0.076	0.121
BUMN/BUMD (SOE)	-0.325	0.028**
Commissioners Board (Com)	-0.004	0.387
Audit Committee (AuCom)	1.035	0.042**
Accounting Firm length service (Tenure)	-0.229	0.038**
Accounting Firm Big-4 (Big-4)	0.014	0.198
Regulator Pressure (Pressure)	0.076	0.023**
New Company (New)	0.012	0.006***
Amount of Sample	86	
Test of Chi-square	42.345 (sig: 0.014)	
Nagelkerke R-Square	0.464	

Noted: ***) sig < 0.01 **) sig < 0.05: *) sig < 0.1

The use of the external audit has two sub-variables, namely the working period (length of service) of Accounting Firm and the use of the Big Four Accounting Firm. Our findings accept the auditor's working period with the client, it means that companies which are indicated to manipulate prefer to use Accounting Firm with a short time working period. However, the use of Accounting Firm affiliated with the Big Four cannot be supported, the results show an insignificant relationship, and so there is no evidence which companies using Accounting Firm affiliated with the Big Four are less likely to be financial fraud in the financial statements. Regarding regulatory pressures, our findings support the second hypothesis, significantly that companies that are more pressured by regulations will commit financial statements fraud, as well as allegations which newly registered companies that experience regulatory pressures tend to fraudulently financial statement which can be proved.

5. Discussion

In general, from the ten hypotheses that we propose, seven of them can be supported and proven, except for three hypotheses to test three variables, namely concentration of ownership, independent commissioner portion and use of big four Accounting Firm.

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Therefore, based on these findings, a number of things will be discussed regarding the rejection of the hypothesis.

Why are some of the opinions of scientists and the results of empirical studies stating that the more concentrated share ownership, the company will tend to commit financial report fraud ?. In purpose to answer this, it is necessary to understand the Indonesian economy in the New Order era 1966 - 1999. Indonesia has experienced the transition from a new order era economy guided in 1998, towards the economy with a market mechanism, and its legal environment is less developed than in developed countries previous. The high concentration of share ownership, especially family ownership, is one response to the lack of investor protection by the New Order era. At present, majority shareholders are constrained and tend to have large shareholders having effective control for public companies which is listed on the Indonesia Stock Exchange.

Our findings reject this assumption and the results indicate that the composition of independent commissioners fewer than non-independent commissioners, it does not support the prediction that the probability of such companies commit financial reporting fraud, which is not in line with the research of La Porta et al. (1998) and these results show that in a weak and unfavorable legal framework, large-scale shareholders tend to be more dominant in the corporate governance process. Our findings have the possibility that the direction of supervision by large shareholders has been entrusted to the audit committee which is formed by the commissioner. Other findings indicate that the maximum oversight of the audit committee, that companies that have formed audit committees do not usually to conduct financial reporting fraud. Large shareholders have more trust in independent supervisors who have the authority to form audit committees, as which has been directed by the government after the reform era in 1999 until the formation of the current FSA. The existence of an audit committee is very useful and needed in corporate governance and corporate accounting practices. The existence of the agency is allegedly able to conduct a review of financial and accounting information that will be issued by the company, even involved in resolving the financial problems which are faced by the company.

How important is the independent commissioner can control abuse of authority leading to fraudulent financial reporting?. Fama (1980) and Fama & Jensen (1983) once said that the existence of a supervisory board or commissioner as a function of supervision and control will be increased when independent commissioners join the board of commissioners. The existence of independent commissioners will provide incentives to companies because they have expertise in corporate governance. The independent commissioner will respond positively to the market because it has a good performance in the supervisory function, which has no interest. Fama & Jensen (1983) state that independent commissioners are people who previously had very good experience in managing other companies or other institutions. The advantage which is gained from the use of independent commissioners is to signal to outsiders that the use of independent commissioners is the use of quality social capital. Shareholders or investors actually have a good understanding of control in the decision, so that the existence of independent commissioners is believed to be able to control the company in a better direction. Many empirical studies provide criticism of the external market which provides penalties for directors who are considered to have poor performance. It is desirable that independent commissioners have financial or accounting expertise, capable of analyzing financial statement misstatements (Agrawal & Chadha, 2005), because many recent studies have argued that there is a role for independent commissioners in preventing or even finding fraud (Uzun et al., 2004; Dahya & McConnell, 2007; Kuang & Lee, 2017; Fahlenbrach et al., 2017; Yang et al., 2017; Roden et al., 2016).

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However, the findings do not support the various results of the above research. It causes some factor, such as the proportion of independent commissioners as much as 46.31% for companies which manipulate financial statements, there are still quite large companies that have independent commissioners who are not dominantly in control of the board of commissioners, approximately 53.69% are still not yet dominantly dominating the board of commissioners. Recent research states whereas a part of the supervisory board or commissioners has members consisting from within the company has a tendency to influence financial report manipulation (Siam et al., 2014; Swastika, 2013; Afzal & Habib, 2018; Chi et al., 2015). If the independence function of the board of directors tends to be weak, hence there is a tendency for moral hazard to be conducted by company directors for their interests through ownership of accrual estimates which have an impact on income smoothing practices, financial statement manipulation and fraud (Habbash et al., 2014; Kumari & Pattanayak, 2014; Wang et al., 2015). The dominance of independent Commissioners has no significant effect due to the large concentration of ownership. Gideon (2005) states that shareholders who have more shares (majority/founders) still have a leading role so that the supervisory board or commissioners is not independent in carrying out the supervisory function. Efforts to appoint and exist for independent commissioners in the company may be carried out as compliance with government regulations, but cannot function to enforce good governance.

In general, the capacity and reputation of Accounting Firm will impact on audit quality, it means that the audited financial statements have truth and reliability. For example, Watts & Zimmerman (1980) states that audit quality is an indication used to detect and assess errors in preparing financial statements, audit quality is highly dependent on the level of auditor reputation and the independence of external auditors. The use of qualified and qualified auditors will be more likely to detect fraud and financial statement fraud. The most appropriate measure for audit quality is external auditors affiliated with Big-4 Accounting Firm, and some studies have found to prove this statement (Cao et al., 2016; Kusnadi et al., 2016; El Ghouli et al., 2016; Shore, 2018).

However, our findings that are not in line with the various views of positive accounting theory are that the use of Accounting Firm which has affiliated with the Accounting Firm Big Four cannot be supported, because the results show insignificant relationships, so that there is no evidence that the Company uses Accounting Firm affiliated with Big Four Accounting Firm is less likely to conduct financial fraud in the financial statements. This has various reasons which can be discussed in depth, that the audit environment in Indonesia is inversely proportional to the audit environment in the US and other developed countries, the auditor's low motivation to provide high-quality audits because there is no effective audit and monitoring mechanism for auditor. In such an institutional environment, the auditor may not limit fraudulent practices in the client's financial statements and so there may be no difference in quality audit between Big-four and non-Big-four auditors, this is supported by the findings of Yaşar (2013), that the lack of companies in Turkey does not encourage auditors to reward auditors who maintain audit quality.

Consistent with this argument, we found that Accounting Firm which handles clients who are in the category of manipulator companies, Big-four Accounting Firm or Big-Four affiliated Accounting Firm assigns less experienced partners to audit companies. In addition, External Auditors who are not affiliated with Big-4 generally do not want to issue bad opinions because they are usually paid quite small by manipulator companies. In general, these findings show that external audits can offer low quality audits when there is no incentive from the government. Contrary to the external auditors affiliated with big-4, they claimed that they would continue to maintain quality audits even though the local External Auditor's institutions were weak.

¹ The condition of this fraudulent action is related to the bounded rationality theory that human nature behind the preparation of financial statements causes the human-generated financial information to be questioned by other humans and the information submitted is usually accepted not following the actual or better-known condition of the company as asymmetric information (Varici, 2013; Ndofor et al., 2015). This case provides an opportunity for managers to commit fraudulent financial statements. Based on the assumption of human nature, managers will prioritize their interests compared to the interests of the owner or well known as the nature of opportunism. Agents will try to find their profits to get bonuses from the company in various ways such as manipulating the numbers in the financial statements. This encourages the use of limited theory or rationality or commonly called bounded rationality. The concept of bounded rationality states that when an individual makes a decision, then their rational mind is limited by the ability to explore problems, cognitive limitations and the limited time available to determine solutions and make those decisions. Individuals who make decisions are more concerned with satisfaction, looking for satisfying solutions rather than optimal ones, in this case, the interests of shareholders and the wider community.

6. Conclusions

This study tested eight hypotheses which are related to corporate governance and institutional public companies in the Indonesian context towards financial report manipulation. The impact of this fraudulent treatment will produce financial reports that are not qualified and not reliable. Material and non-material losses have the potential to occur either to majority shareholders, minority shareholders, the government or even customers. The results of the tests which we have conducted are mostly proven, as is the problem of international involvement, fraudulent companies have a low share of foreign ownership, as is the experience of international commissioners, fraudulent companies have few international commissioners. Meanwhile, companies in which the State is the majority shareholder are more likely not to conduct fraudulent financial reporting because many financial governances are intervened through state financial rules. Likewise, with the existence of an audit committee, companies that have audit committees are less likely to commit financial reporting fraud. Another thing we analyze is the involvement of external auditors, especially the auditor's working period with clients, it means that companies which are indicated to manipulate financial statements prefer to use Accounting Firm with a short working period. Finally, companies which are in decreasing trends or even losing profit condition, are under regulatory pressure, companies like this are more likely to conduct financial report fraud in order to avoid reprimand and warnings from the FSA, as well as the allegations of newly registered companies and it is experiencing regulatory pressure, the pressure is in the form of an obligation to fulfill the requirements of good corporate governance.

However, there are three unproven variables, the first is the composition of the independent commissioner fewer than non-independent commissioners does not support the prediction that the probability of the company doing fraudulent financial reporting, our findings suggest that large shareholders give more trust in the committee audits, which serve under the Board of Directors that oversee and support the management in order to maximize company value through checks and balances. The existence of an independent committee has not been able to be answered, the findings of this study do not support the various results of previous studies. Some of the factors that caused the lack of proportion of independent commissioners for companies that manipulated financial statements were only 46.31%. Related to Accounting Firm which is affiliated with the Big-four Accounting Firm, it cannot be supported, because the results show an insignificant relationship. Our findings illustrate that the audit environment in Indonesia,

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in contrast to the audit environment of other developed countries such as the USA and Europe, Indonesia has low motivation for auditors to provide high-quality audits, because there are no audit mechanism and effective supervision for auditors. Our observations in the field, that Accounting Firm handles clients who are in the category of manipulator companies, the Accounting Firm office assigns less experienced partners to audit companies which are indicated to commit fraudulent financial statements.

There are things that need to give more attention especially the limitations in this study, especially the use of the Beneish Ratio Index in detecting fraud in company financial statements, there may be companies that are more sophisticated in conducting fraud that cannot be detected accurately. It is needed an in-depth audit from the FSA so that companies that actually conduct fraud can be detected accurately The use of manufacturing companies has not been fully generalized, in the future the research can expand the scope of the company.

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