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*Review article*

# The Influence of Financial Distress and Audit Committee on Fraudulent Financial Reporting Moderating by Good Corporate Governance

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***Abstract*** *- The purpose of this study is to analyze the influence of financial distress and audit committee on fraudulent financial reporting moderating by good corporate governance. The sample used in this study are 13 manufacturing companies, specifically in the consumer goods sector for the period of 2017 - 2019. The data used in this study was obtained from the company's financial statements and annual reports of listed manufacturing companies on the Indonesia Stock Exchange (IDX). The sampling technique used is the purposive sampling method. The analysis technique used in the study is multiple regression analysis. The result of the study found that financial distress has a significant positive influence on fraudulent financial reporting. Meanwhile, the audit committee has a significant negative influence on fraudulent financial reporting. Good corporate governance weakens the positive influence of financial distress and has moderated financial distress on fraudulent financial reporting. Meanwhile, good corporate governance weakens the negative influence of the audit committee and has no moderates audit committee on fraudulent financial reporting*

***Keywords*** *- Fraudulent Financial Reporting, Financial Distress, Audit Committee, Financial Expertise of Audit Committee, Good Corporate Governance*

## I. INTRODUCTION

Fraud in all its forms and modes, has brought adverse impacts and losses to business organizations and public sector organizations. The practice of embezzlement, misuse of assets, fraud in the procurement of goods and services, financial statement fraud, including corruption, from the simple to the very sophisticated and complex, lately happens a lot (Priantara, 2013). According to Arens et al. (2008:432), factors that influence the occurrence of fraud are pressure, opportunity, and rationalization, which later became known as the element of fraud or the fraud triangle.

According to Prasetyo (2014) fraud is a misstatement from a fact material that is known to be untrue or presented, ignoring the truth principles, with the intention of deceiving towards other parties and resulting in other parties are harmed. This study will be talking about fraudulent financial reporting, with the determinants of financial distress and audit committee moderating by Good Corporate Governance. According to Annisya (2016), stated that basically, the financial statements are the most important thing in every company, because in the financial statements of the internal and external companies can find out how the company's financial condition. Not a few companies that manipulate external financial statement data in order to attract investors and stakeholders to invest capital in the company. The activity was carried out to cover losses suffered by the company.

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 the company Enron, WorldCom Company, Olympus Corporation, and so on. The cases of fraudulent financial reporting that occurred in Indonesia, such as PT. Garuda Indonesia Tbk, PT. Kimia Farma Tbk, PT. Waskita Karya Tbk, PT. Pakuwon Jati Tbk, PT. Sari HusadaTbk, PT. Bakrie and Brothers Tbk, PT. Bakrie Sumatra Planta-tionTbk, PT. Energi Mega PersadaTbk, PT. BenakatPetrolum Energy Tbk and airline Batavia Air (www.bapepam.go.id).

Manufacturing companies are vulnerable to the occurrence of fraudulent financial reporting because manufacturing companies require various assumptions and accounting methods in capturing the company's economic events. Besides that, the manufacturing company is a company that turns the 3 (three) steps process; raw materials, work in process, and finished goods. Those finished goods will be sold to the customers for a daily consumption or other needs. Regarding to those activities that are done above, the manufacturing industry directly contribute revenue to a

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country. So, it will be more risks of fraud to occur because of the competition among manufacturing companies (Handoko & Ramadhani, 2017). The case of fraudulent financial reporting occurred, as in July 2015 on the world's tech giant company Toshiba Corporation. As well as in Indonesia, cases occurred as in PT Kimia Farma (Akbar, 2017).

Financial distress occurs because of a series of interrelated mistakes, improper decision-making, and weaknesses that can contribute directly or indirectly to management, as well as its absence or lack of efforts to monitor financial conditions so that the use of money is not appropriate with necessity (Fachrudin, 2008). Financial distress becomes a factor of fraudulent financial reporting because the financial report is the important information that is used by the users of financial statements to make economic decisions (Institute of Indonesia Chartered Accountants, 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 show that the company's financial condition and company’s performance are well. It can be a door for management to commit fraudulent financial reporting. According to the study, Susianti et al. (2015) stated that financial distress and company conditions have a positive influence on the possibility of fraudulent financial statements. On the other hand, according to Rahmawati, et al (2017) stated that financial distress, company conditions, and external pressures has a negative influence on fraudulent financial reporting.

Another factor of fraudulent financial reporting is financial expertise in Audit Committee. The performance effectiveness of the audit committee can be measured through characteristics of size or number of the audit committee, competencies possessed by members of the audit committee, independence, and activities of the audit committee. Audit Committee who classified in Financial Expertise as based on Regulation of Authority Financial Services (OJK) No. 55 /POJK.04/2015, stated that audit committee members are required independent and at least has 1 (one) person who has the ability in accounting or finance. Besides, it is a mandatory audit committee member understand financial statements, business particularly related companies with services or business activities issuer or public company, audit process, risk management, and regulations legislation in the market sector capital and legislation other related (www.ojk.go.id). According to the study Riyanti et al. (2019), the audit committee has a positive effect on fraudulent because financial expertise in audit committees will be increase fraudulent financial reporting in real activities. On the other hand, according to Handoko and Ramadhani (2017) stated that the financial expertise of the audit committee has a negative influence on the possibility of the fraudulent financial report because audit committee members must have at least 1 (one) member with a background education and expertise in accounting and finance.

According to YYPMI (2002:21) as cited by Anggreni (2010), Good Corporate Governance (GCG) is a set of rules governing the relationship between shareholders, company managers, creditors, government, employees, and other internal and external stakeholders relating to their rights and obligations, or in other words a system that regulates and controls the company. Good corporate governance will provide simultaneous to company performance, management, internal control, and compliance. According to Tessa and Harto (2016), one of the fraudulent financial reporting measures taken is bureaucratic reform and the implementation of the principles of good governance. According to the World Bank (1992), as cited by Gusnardi (2011), "good governance efficient public services, reliable systems and governance that is accountable to the public". Various case scandals global corporations in large-scale companies such as Enron, Xerox, and WorldCom, indicated that the company's business failure was due to bad corporate governance.

The selection of Good Corporate Governance as moderating variable in this study because corporate governance affects the relationship between financial distress and audit committee on fraudulent financial reporting. The failure of companies to achieve their goals, to survive in business activities and markets, financial difficulties, have been linked by capital markets, users of financial statements, and professions accounting with weaknesses in its corporate governance structure applied by the company (Permana et al., 2017).

## II. THEORY STUDIES, FRAMEWORK AND HYPOTHESES

### A. *Agency Theory*

Agency conflicts occurred because the principal's interest in getting profits continues to increase, while agents are attracted to receive increased satisfaction in the form of financial compensation. It causes the agent to have various (Pressure) to find a way to make company performance always increases in the hope that with an increase in performance, then the principal will provide a form of appreciation (Rationalization). If management has great access (Capability) and the opportunity to perform earnings management (Opportunity) as a form of fraudulent financial reporting. Then the door to commit fraud will be more and more open. The higher the compensation given to the feeding agent, the higher the dividend rate that will be given to the owner investigation (Purnawati, 2018).

According to Widowati (2009), as quoted by Wicaksono and Chariri (2015), explains that agency theory is related to corporate governance can be used as a manager (agent) tool to convince investors (principal) to ensure that they receive a return on the funds they have invested. Corporate governance is expected to be able to resolve conflicts of interest and imbalance of information between principal and agent to prevent and prevent fraud in financial reporting.

### *B. Research Framework*

This study is aimed to analyze the influence of financial distress and audit committee on fraudulent financial reporting moderating by good corporate governance. The research framework is as follows:

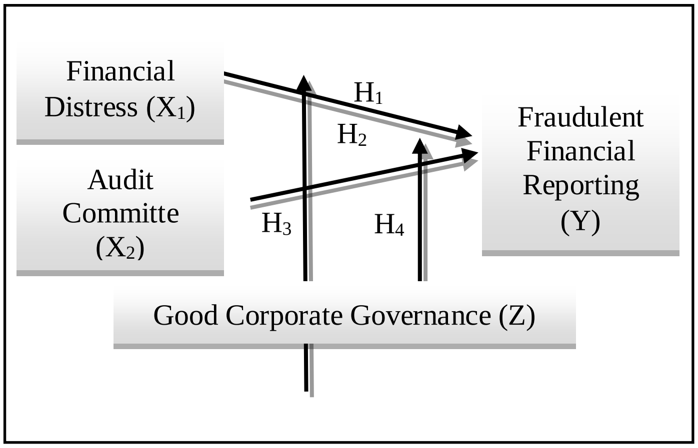


**Fig. 1 Research Framework**

### *C. Fraudulent Financial Reporting*

Fraudulent financial reporting as intentional misstatements or omissions of monetary amounts or disclosures in financial statements designed to deceive financial statement users, disregarding critical financial information and violating the conformity to the generally accepted accounting principles (GAAP) (SAS No. 99 (AICPA 2002)). According to Rezazadeh et al. (2014), there are three types of fraudulent financial reporting are (1) Earning Management: manipulation sales through accelerating the timing of sales or create overproduction with falling prices or create easier credit conditions, reduce discretionary spending, and also additional or excessive production in order to report lower the real cost of goods sold. (2) Income Smoothing: to increase profits when profit is down, and reduce it when profit is up, increase in company shareholder value, reduction of corporate risk, raise funds, improve relationships with employees, suppliers of raw mate, and tax incentives. (3) Balance Manipulation: manipulation of the balance sheet through overvaluing assets through provision for doubtful accounts, inventory manipulation, and subsidiaries or joint ventures and undervaluing liabilities through pension obligations and contingent liabilities.

### *D. Financial Distress*

Financial distress is a condition of financial difficulty because of the results of the company's operations, or company results are not sufficient to fulfill company obligations. The result of a study conducted by Susianti et al. (2015) stated that financial distress and company conditions had a positive influence on the possibility of fraudulent financial statements because the companies published the financial statements for the external user (investors, creditors, and lenders) and want to show the company's financial condition is well. On the other hand, according to Rahmawati, et al. (2017) stated that financial distress, company conditions, and external pressures has a negative influence on fraudulent financial reporting.

**$H_1$: Financial distress has a positive influence on fraudulent financial reporting.**

**Audit Committee Financial Expertise**

Audit committee members have required at least there one person who has the ability in accounting or finance. It is a mandatory audit committee member to understand financial things. The result of a study conducted by Reinanda (2018) and Riyanti, et al. (2019) stated that audit committee financial expertise has a positive influence on fraudulent financial reporting because financial expertise will be increase fraudulent financial reporting in riil activities. On the other hand, according to Handoko and Ramadhani (2017) stated that financial expertise of the audit committee has a negative influence on the possibility of the fraudulent financial report because the existence of an accounting expert or finance member will empower the audit committee to conduct an independent assessment of that information receipt, recognize the problem and find the right solution.

**$H_2$: Audit committee financial expertise has a negative influence on fraudulent financial reporting.**

**Good Corporate Governance in Moderating Financial Distress**

Good Corporate Governance (GCG) is a set of rules or a system that regulates and controls the company. In the research conducted by Gusnardi (2011), good corporate governance will provide simultaneous to company performance, financial health, management, internal control, and compliance. The concept of good corporate governance is proposed in order to achieve more transparent company management for all users of financial statements. Good corporate governance can monitor management in order to harmonize the differences between the interests of owners and management.

**$H_3$: Good corporate governance weakens the positive influence of financial distress on fraudulent financial reporting.**

**Good Corporate Governance in Moderating Audit Committee Financial Expertise**

Related to good corporate governance, the Audit Committee is one part of the corporate governance mechanism. In the circular letter of Bapepam No.SE03/PM/2000 recommended public companies to form an audit committee who in charge of assisting the Board of Commissioners (BOC) by providing a professional opinion independent to improve the quality of performance and reduce deviation management of the company. The result of the study conducted by Wicaksono and Chariri (2015), stated that size and composition independent of the board of commissioners have a significant effect on the possibility of free fraudulent financial reporting. The Board of commissioners is formed to be assigned and given responsibility for monitoring the quality of information contained in financial reports that are supported by an independent opinion that is given by the audit committee. This supervisory task is carried out to prevent managers, or other organizational structures commit fraud in financial reporting and ensure that the company has implemented good corporate governance.

**$H_4$: Good corporate governance reinforces the negative influence of audit committee on fraudulent financial reporting.**

## III. RESEARCH METHOD

### A. *Measurement of Operational Variables*

#### a) *Fraudulent Financial Reporting*

Fraudulent financial reporting is a misstatement from a fact material that is known to be untrue or presented, ignoring the truth principles, with the intention of deceiving towards other parties and resulting in other parties are harmed. Fraudulent financial reporting can be measured using Beneish M-score model. Empirically, companies with high M-scores have more tendencies to commit fraud. Beneish Ratio Index used to detect any manipulation in the financial statements are as follows:

1. Days Sales in Receivable Index (DSRI)
   A high DSRI number indicates that the company is making credit policy changes to spur sales. But the increase in receivables can be caused by inflation.
   $$\mathrm{DSRI} = \frac{\mathrm{AR_t} : \mathrm{Sales}}{\mathrm{AR_{t-1}} : \mathrm{Sales}}$$
2. Gross Margin Index (GMI)
   The value of GMI > 1 indicates the company has a negative signal in terms of the company's prospects. If the company has a negative prospect, it will be more vulnerable to manipulating financial statements.
   $$\mathrm{GMI} = \frac{\dfrac{\mathrm{Sales_{t-1}} : \mathrm{Cost\ of\ Sales_{t-1}}}{\mathrm{Sales_{t-1}}}}{\dfrac{\mathrm{Sales_t} : \mathrm{Cost\ of\ Sales_t}}{\mathrm{Sales_t}}}$$
3. Asset Quality Index (AQI)
   The value of AQI > 1 indicates that the company is more likely to increase deferred costs or increase intangible assets and manipulate revenue.
   $$\mathrm{AQI} = \frac{1 - \mathrm{Current\ Asset_t} + \dfrac{\mathrm{Net\ Fixed\ Asset_t}}{\mathrm{Total\ Asset_t}}}{1 - \mathrm{Current\ Asset_{t-1}} + \dfrac{\mathrm{Net\ Fixed\ Asset_{t-1}}}{\mathrm{Total\ Asset_{t-1}}}}$$
4. Sales Growth Index (SGI)
   The results of SGI > 1 illustrates that the company experienced an increase in sales from the previous year. Companies that experience sales growth are more likely to manipulate revenues.
   $$\mathrm{SGI} = \frac{\mathrm{Sales_t}}{\mathrm{Sales_{t-1}}}$$
5. Depreciation Index (DEPI)
   The result of DEPI > 1 indicates the level where assets being depreciated are slowing down, which increases the likelihood that the company has raised its estimated useful lives or applies assets a new method, namely increasing income.
   $$\mathrm{DEPI} = \frac{\mathrm{Depreciation_{t-1}} : \mathrm{PPE_{t-1}}}{\mathrm{Depreciation_t} : \mathrm{PPE_t}}$$
6. Selling, General, and Administrative Expense Index (SGAI)
   SGAI ratio is a decrease efficient administration and marketing (SGA costs is greater) affect companies to manipulate profits.
   $$\mathrm{SGAI} = \frac{\mathrm{SGA\ expense_t} : \mathrm{Sales_t}}{\mathrm{SGA\ expense_{t-1}} : \mathrm{Sales_{t-1}}}$$
7. Leverage Index (LVGI)
   The result of LVGI > 1, it indicates an increase in leverage. This variable is intended to capture internal incentives debt covenant which is used to manipulate income.
   $$\mathrm{LVGI} = \frac{\dfrac{\mathrm{Current\ Liabilities_t} + \mathrm{Total\ Long\ Term\ Debt_t}}{\mathrm{Total\ Asset_t}}}{\dfrac{\mathrm{Current\ Liabilities_{t-1}} + \mathrm{Total\ Long\ Term\ Debt_{t-1}}}{\mathrm{Total\ Asset_{t-1}}}}$$
8. Total Accruals to Total Assets (TATA)
   TATA is the ratio of total accruals to total assets. This ratio estimates the short-term forecast of income and expenditure activities of a company.

$$\mathrm{TATA} = \frac{\mathrm{Income\ from\ Operating}_t - \mathrm{Cash\ Flows\ from\ Operating}_t}{\mathrm{Total\ Asset_t}}$$

The formula of FFR:

M = -4.840 + 0.920 DSRI + 0.528 GMI + 0.404 AQI + 0.892 SGI + 0.115 DEPI - 0.172 SGAI - 0.327 LVGI + 4.697 TATA

(Source: Hantono, 2018)

Information:

DSRI = Day's sales receivables index

GMI = Gross profit margin index

AQI = Asset quality index

SGI = Sales growth index

DEPI = Depreciation index

SGAI = Sales and General Administration expenses index

LVGI = Leverage index

TATA = Total Accruals to Total Assets index

Category:

Beneish M-Score < -2.22, the company does not indicate fraud.

Beneish M-Score > -2.22, the company indicated fraud.

The companies which indicated fraud for 2 years or more in within the 2017-2019 period are selected as a sample of the study.

### *B. Financial Distress*

Financial distress is an inability of the company to meet its current financial obligations. It is directly related to the firm's leverage decision. The impacts of financial distress are misstatement of financial statements to cover the company's large debts and losses on financial statements, insolvency, business failure, and company bankruptcy. The financial distress variable is using the percentage of earnings before interest and tax to total asset ratio.

$$\text{EBITTA} = \frac{\text{Earning Before Interest and Tax}}{\text{Total Asset}}$$

EBITTA ratio is used to measure the company's ability to manage its resources effectively. This is shown by the profit generated from sales and investment income.

### *C. Audit Committee Financial Expertise*

Financial expertise as based on Regulation of Authority Financial Services (OJK) No. 55 /POJK.04/2015, audit committee members are required independent and at least there one person who has the ability in accounting or finance. Besides, it is a mandatory audit committee member to understand financial things. Financial expertise can be measured by the percentage of audit committee members with a background behind education and experience in accounting and finance to the total number of audit committee members.

### *D. Measurement of Moderating Variables*

#### *a) Good Corporate Governance*

Moderating variable is the strength or direction of an effect between two variables, X and Y. It affects the relationship between the independent variable of financial distress and audit committee and the dependent variable of fraudulent financial reporting. In this study, the good corporate governance mechanism is using independent commissioners. Companies that apply the principles of good corporate governance must have a supervisory board of commissioners. There are commissioners from the company and independent commissioners. In accordance with the Regulation of the Financial Services Authority (POJK) Number 33 of 2014, independent commissioners are members of commissioners who come from outside the issuer or public company, do not have direct or indirect shares, have no affiliation, and do not have direct or indirect business relationships with issuers or public companies. The GCG as a moderating variable measure by the minimum composition of the board of independent commissioners is 30% of the membership of the board of commissioners.

## IV. RESULT ANALYSIS AND DISCUSSION

This study is a quantitative research using secondary data, which is sourced from annual financial reports of going public manufacturing companies specified in consumer goods that have been published on Indonesia Stock Exchange (IDX) within the period 2017-2019. Data accessed on the official website of www.idx.co.id. Population of this study are 54 companies, with the model selection sample method is purposive sampling. The sample selected of this study are 13 companies based on the following criteria:

**Table 1.**

Research Selected Sample

| No | Criteria | Total |
|---|---|---|
| **1.** | Manufacturing companies that listed in IDX (category: consumer goods industry) within period 2017-2019 | 54 |
| **2.** | Not reported annual report within period 2017-2019 | 20 |
| **3.** | Not reported complete annual report and not provide complete information needed | 13 |
| **4.** | Not supported criteria needed to be related to the variables | 8 |
| 5. | Number of sample company | 13 |
| 6. | Observation years | 3 |
| 7. | Number of sample company and observation years during the research period | 39 |

### *A. Statistics Descriptive*

The dependent variable used in this study is fraudulent financial reporting, the independent variables are financial distress and audit committee in financial expertise, and the moderating variable is good corporate governance. This study was conducted by taking data on the annual report of listed manufacturing companies on the Indonesia Stock Exchange (IDX) during the period of 2017-2019, which is calculated by using SPSS 25. The following table is the result of statistic descriptive obtained from the annual report of sample data:

**Table 2 . Result of Descriptive Statistic**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| FFR | 39 | -4.18 | -1.54 | -2.5536 | .44935 |
| FD | 39 | -21.20 | 37.00 | 11.1359 | 11.28244 |
| FEX | 39 | 33.00 | 100.00 | 77.2308 | 22.08889 |
| GCG | 39 | 33.00 | 75.00 | 40.5128 | 11.45902 |
| Valid N (listwise) | 39 | | | | |

### *B. Data Normality Test*

The normality data test was done using the Kolmogorov-Smirnov test one sample. The conclusion to determine whether a data follows a normal distribution or not is by assessing the significant value. If it's significant > 0.05, then the variables are normally distributed, and if it's significant < 0.05, then the variables are not normally distributed (Ghozali, 2013: 154).

**Table 3. Result of Data Normality Test**

**One-Sample Kolmogorov-Smirnov Test**

| | | Unstandardized Residual |
|---|---|---|
| N | | 39 |
| Normal Parameters[a,b] | Mean | .0000000 |
| | Std. Deviation | .40573981 |
| Most Extreme Differences | Absolute | .106 |
| | Positive | .106 |
| | Negative | -.059 |
| Test Statistic | | .106 |
| Asymp. Sig. (2-tailed) | | .200[c,d] |

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

The normality test results show that a significance value of 0.200. This value shows that the significant value on unstandardized residuals is greater than 0.05 (0.200 > 0.05), so that can be interpreted data used on this regression model is normally distributed. Besides using statistical calculations, the normality of data can be seen with the P-P plot graphic of normality. The other results of the normality test are presented as follows:

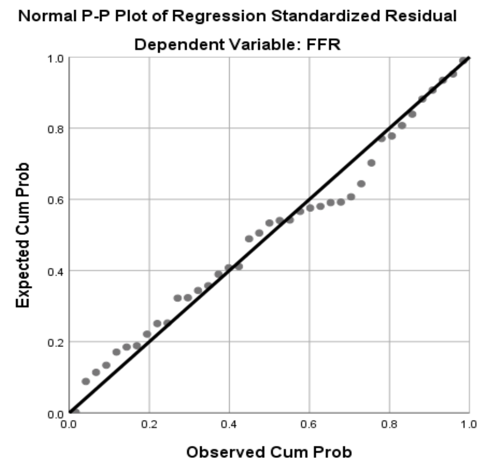


**Fig. 2 Result of Data Normality Test Using P-P Plot Graphic**

Figure 2 shows that the data distribution is located around the diagonal line and follows the direction of the diagonal line, meaning that the regression the model has fulfilled the normality assumption.

### *C. Multicollinearity Test*

Multicollinearity test aims to test whether in the model regression found a correlation between independent variables. A good regression model should not occur correlation between independent variables. Regression that frees from multicollinearity problems has VIF value < 10 and a tolerance value > 0.10. The result of multicollinearity test as follows:

**Table 4. Result of Multicollinearity Test**

**Coefficients[a]**

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| 1 | FD | .622 | 1.608 |
| | FEX | .686 | 1.458 |
| | GCG | .798 | 1.253 |

a. Dependent Variable: FFR

Based on the table above, it can be seen that the test results are multicollinearity shows tolerance values are greater than 0.10, and values the variance inflation factor (VIF) is smaller than 10 for each variable. Tolerance values which generated from financial distress are 0.622, audit committee financial expertise is 0.686, and good corporate governance is 0.798. While VIF values of financial distress are 1.608, audit committee financial expertise is 1.458, and good corporate governance is 1.253. Therefore, based on multicollinearity test results, it can be concluded that there are no multicollinearity problems in all independent variables in the regression model, and feasible to use in this study.

### *D. Heteroscedasticity Test*

Heteroscedasticity test aims to test whether in the regression model occurs inequality between the variants of a residual observations to other observations. The presence of heteroscedasticity in the regression equation can be detected by using the Glejser test. A good regression model is there is not heteroscedasticity. If the significant probability is above of level 5% confidence, it can be concluded that there is no heteroscedasticity. The following are the results of the heteroscedasticity test:

**Table 5. Result of Heteroscedasticity Test**

**Coefficients[a]**

| Model | | Unstandardized Coefficients B | Unstandardized Coefficients Std. Error | Standardized Coefficients Beta | t | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | .361 | .265 | | 1.364 | .181 |
| | FD | -.007 | .005 | -.273 | -1.326 | .193 |
| | FEX | .001 | .002 | .065 | .333 | .741 |
| | GCG | -.001 | .004 | -.052 | -.286 | .777 |

a. Dependent Variable: ABRESID

Based on the table above, it is known that the significance values of independent variables are greater than the significance level of 0.05, where financial distress = 0.193, audit committee financial expertise = 0.741, and good corporate governance = 0.777. It means that the regression model in this study did not occur heteroscedasticity.

Another way that can be used to determine the presence of heteroscedasticity is to see the presence of certain patterns on a scatterplot graph between SRESID and ZPRED. If there are no clear patterns and the points spread above and below the number 0 (zero) on the Y-axis, then heteroscedasticity does not occur.

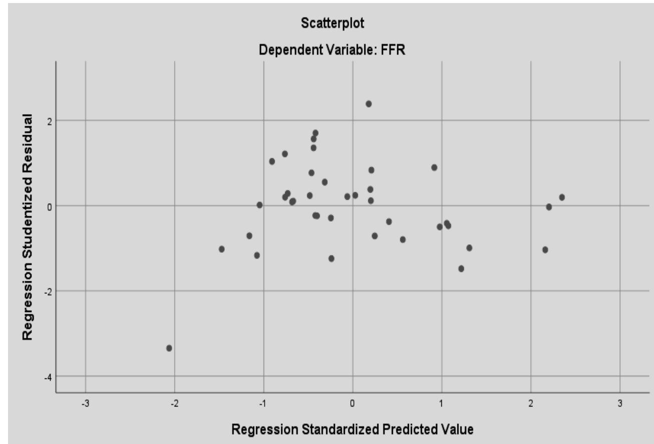


**Fig. 3 Result of Heteroscedasticity Test Using Scatter Plot Graphic**

COMPUTE ABRESID=ABS(RES_1).
EXECUTE.

Based on the results of the heteroscedasticity test in Figure 3 above, it can be seen that the regression model in this study did not occur heteroscedasticity, because the scatterplot has an irregular pattern.

### *E. Autocorrelation Test*

The autocorrelation test aims to test whether in a linear regression model there is a correlation between confounding errors in the previous period. The presence of autocorrelation contained in the regression equation can be seen from the Durbin Watson (DW) value. The criteria for autocorrelation do not occur if the DW value lies between du and 4-du (du <dw<4-du). The following are the results of the autocorrelation test:

**Table 6. Result of Autocorrelation Test**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .430[a] | .185 | .115 | .42277 | 1.841 |

a. Predictors: (Constant), GCG, FEX, FD

b. Dependent Variable: FFR

Based on the table above, it can be seen that the autocorrelation test results in the Durbin-Watson value are 1.841. In this study, there are two independent variables and one moderating variable. According to the Durbin-Watson table, the range of du (lower limit) is 1.6575, and the value of 4-du is 2.3425, as is determined within the autocorrelation limits with the Durbin-Watson test.

| Rejected: Positive | Inconclusive | Accepted: No autocorrelation | Inconclusive | Rejected: Negative autocorrelation |
|---|---|---|---|---|

0dl du 2 4-du 4-dl 4

The result is du <dw< 4-du or 1.6575 < 1.841 < 2.3425 shows that the data used in this study are not declined and can be continued because the data is free from autocorrelation in positive and negative problems. This result indicates that the sample variant of this study can describe the population variant, the dependent and independent variable is not correlated with the value of the variable itself in the previous period, and there are no consecutive observations all the time are related to one another.

### *F. Multiple Linear Regression Test*

Multiple linear regression analysis is used to find out the influence of the independent variables on the dependent variable; as for the results of multiple linear regression tests are as follows:

**Table 7. Result of Multiple Linear Regression Test**
**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -2.872 | .965 | | -4.188 | .016 |
| | FD | .161 | .052 | 4.046 | 3.102 | .004 |
| | FEX | -.040 | .023 | -2.951 | -3.726 | .022 |
| | GCG | -.021 | .062 | -2.437 | -3.215 | .030 |
| | GCG x FD | -.004 | .001 | -4.649 | -2.908 | .006 |
| | GCG x FEX | .001 | .000 | 1.795 | 2.362 | .058 |

a. Dependent Variable: FFR

Based on the table above produces the following regression models:

$$Y = -2.872 + 0.161FD - 0.040FEX - 0.021GCG - 0.004GCG*FD + 0.001GCG*FEX$$

The following regression interpretation are:

1. The regression equation above shows the constant value of -2.872. If the financial distress and audit committee financial expertise, and the moderation of good corporate governance to financial distress and audit committee are considered constant or valuable 0 (zero), then the fraudulent financial reporting will be decreased by 2.872 units.
2. The regression coefficient of the financial distress is 0.161. If the financial distress increases by one unit, then the fraudulent financial reporting will be increased by 0.161 units.
3. The regression coefficient of audit committee financial expertise is -0.040. If the audit committee's financial expertise increases by one unit, then the fraudulent financial reporting will be decreased by 0.040 units.
4. The regression coefficient of good corporate governance is -0.021. If the good corporate governance increases by one unit, then the fraudulent financial reporting will be decreased by 0.021 units.
5. The regression coefficient of moderation of good corporate governance to financial distress is -0.004. If its moderation increases by one unit, then the fraudulent financial reporting will be decreased by 0.004 units.
6. The regression coefficient of moderation of good corporate governance to audit committee financial expertise is 0.001. If its moderation variable increases by one unit, then the fraudulent financial reporting will be increased by 0.001 units.

### *G. Determination Coefficient Test*

The determination coefficient test results are used to test out how much the ability of independent variables and moderation variables in this study are able to influence the dependent variable. The Results of the determination coefficient test can be seen in the table below.

**Table 8. Result of Determination Coefficient test**
**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .595[a] | .353 | .256 | .38771 | 2.292 |

a. Predictors: (Constant), GCG x FEX, FD, GCG, FEX, GCG x FD
b. Dependent Variable: FFR

The determination coefficient R Square on the table above shows the value amounted to 0.353 or 35.3%. It means that financial distress and audit committee financial expertise with the moderation of Good Corporate Governance can simultaneously determine the magnitude of influence in fraudulent financial reporting at listed manufacturing companies in the category of consumer goods sector listed on the Indonesia Stock Exchange (IDX) within the period 2017-2019 is 35.3%, while 64.7% influenced by other factors that are not discussed on this study.

### *H. Simultaneous (F-Test)*

The F test is used to test the effect of the independent variables simultaneously on a dependent variable. To find out whether independent variables simultaneously affect the dependent variable is compare the calculated F value with the value of F table. The criteria for determining that a hypothesis is accepted if the significance value of F is smaller than the significance level of 5% and the calculated F is greater than F table.

**Table 9. Result of Stimultaneous Test (F-Test)**

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 2.712 | 5 | .542 | 3.609 | .010[b] |
| | Residual | 4.961 | 33 | .150 | | |
| | Total | 7.673 | 38 | | | |

a. Dependent Variable: FFR

b. Predictors: (Constant), GCG x FEX, FD, GCG, FEX, GCG x FD

Based on the results in the table above, the calculated F value is 3.609 with a significance value of 0.010. This shows that the significance value is smaller than the significance level of 5% (0.010 < 0.05), and the calculated F value is greater than the F table (3.609 > 3.26), meaning that financial distress and audit committee financial expertise variables influence and simultaneously the fraudulent financial reporting moderating by Good Corporate Governance at listed manufacturing companies on Indonesia Stock Exchange (IDX) within the period 2017-2019. Therefore, the regression model of this study is good.

### *I. Partial (T-Test)*

The statistical T-test is used to determine whether there is the effect of each independent variable individually on the dependent variable or not that was tested at a significance level of 0.05. If the probability value of T is smaller than 0.05, then $H_0$ is rejected, and $H_1$ is accepted. Whereas, if the probability value of T is greater than 0.05, then $H_0$ is accepted, and $H_1$ is rejected. Table 10 shows the results of the statistical T-test.

**Table 10. Result of Partial Test (T-Test)**

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -2.872 | .965 | | -4.188 | .016 |
| | FD | .161 | .052 | 4.046 | 3.102 | .004 |
| | FEX | -.040 | .023 | -2.951 | -3.726 | .022 |
| | GCG | -.021 | .062 | -2.437 | -3.215 | .030 |
| | GCG x FD | -.004 | .001 | -4.649 | -2.908 | .006 |
| | GCG x FEX | .001 | .000 | 1.795 | 2.362 | .058 |

a. Dependent Variable: FFR

The table above shows the results of the statistical T-test between the influence of independent variables to the dependent variable are as follows:

1. Financial Distress has positive regression of 0.161 with a significance level of 0.004. It shows that significance level is smaller than 0.05 (0.004 < 0.05). Therefore, $H_0$ is rejected, and $H_1$ is accepted, which means that financial distress has a significant positive influence on fraudulent financial reporting.
2. Audit Committee financial expertise has negative regression of -0.040 with a significance level of 0.022. It shows that significance level is smaller than 0.05 (0.022 < 0.05). Therefore, $H_0$ is rejected, and $H_2$ is accepted, which means audit committee financial expertise has a significant negative influence on fraudulent financial reporting.
3. Good Corporate Governance in moderating financial distress has negative regression of -0.004 with a significance level of 0.006. It shows that significance level is smaller than 0.05 (0.006 < 0.05). Therefore, $H_0$ is rejected, and $H_3$ is accepted, which means that Good Corporate Governance weakens the significant positive influence of financial distress on fraudulent financial reporting.
4. Good Corporate Governance in moderating audit committee financial expertise has positive regression of 0.001 with a significance level of 0.058; It shows that the significance level is greater than 0.05 (0.058 > 0.05). Therefore, $H_0$ is accepted, and $H_4$ is rejected, which means that Good Corporate Governance is not a moderator for the audit committee on fraudulent financial reporting.

### J. Research Discussion

$$Y = -2.872 + 0.161FD - 0.040FEX - 0.021GCG - 0.004GCG*FD + 0.001GCG*FEX$$

#### a) The Influence of Financial Distress on Fraudulent Financial Reporting

Financial distress has a significant positive influence on fraudulent financial reporting. It can be seen from the T-test in table 11, which shows the significance level below 0.05 (0.004 < 0.05). This finding is consistent with the study conducted by Susianti et al. (2015), which shows the positive influence of financial distress on fraudulent financial reporting.

According to the result, it can be interpreted that the higher financial distress is the important aspect to commit fraudulent financial reporting. High financial distress shows the condition of company's operations or company profit is not sufficient to fulfill company obligations, so it provides an opportunity for management to commit fraudulent financial reporting because the companies want to show to the external user (investors, creditors, and lenders) that companies have great financial performance.

#### b) The Influence of Audit Committee Financial Expertise on Fraudulent Financial Reporting

Financial expertise of the audit committee has a significant negative influence on fraudulent financial reporting. It can be seen from the T-test in table 11, which shows the significance level below 0.05 (0.022 < 0.05). This finding is consistent with the studies conducted by Handoko and Ramadhani (2017), shows the significant and negative influence of the financial expertise on fraudulent financial reporting.

According to the result, it can be interpreted that the more audit committee members that have financial and accounting expertise will empower the audit committee to conduct an independent assessment of information receipt, recognize the problem and find the right solution, also increase the effectiveness in assessment and review external audit report so reduce the occurrence of fraudulent financial reporting in the company. In line with agency theory that the delegation of shareholders' responsibility for internal control to the board of commissioners is then delegated to the audit committee to oversee the financial reporting process, so the audit committee can carry out the process of supervision of financial reporting effectively.

#### c) The Influence of Good Corporate Governance in Moderating Financial Distress on Fraudulent Financial Reporting

Good corporate governance has moderated financial distress on fraudulent financial reporting. It can be seen from the T-test in table 11, which shows the significance level below 0.05 (0.006 < 0.05). Good Corporate Governance weakens the positive influence of financial distress on fraudulent financial reporting. It means that the implementation of Good Corporate Governance in companies can reduce financial distress conditions so it can increase the level of free on fraudulent financial reporting committed by management. This finding is consistent with the study conducted by Gusnardi (2011), which shows the Good Corporate Governance weakens the positive influence of financial distress on the possible fraudulent financial reporting.

According to the result, it can be interpreted that good corporate governance will provide simultaneous to company performance, financial health, management, internal control, and compliance. The concept of good corporate governance is proposed in order to achieve a more transparent company management for all users of financial statements.

#### d) The Influence of Good Corporate Governance in Moderating Audit Committee Financial Expertise on Fraudulent Financial Reporting

Good corporate governance has no moderates audit committee financial expertise on fraudulent financial reporting, according to the T-test in table 11, which shows the significance level above 0.05 (0.058 > 0.05). According to the regression, the result shows that Good Corporate Governance weakens the negative influence of audit committees on fraudulent financial reporting. It means that the implementation of Good Corporate Governance in companies does not reinforce the influence of audit committee financial expertise of free on fraudulent financial reporting. This finding is not consistent with the studies conducted by Wicaksono and Chariri (2015), which shows the audit committee reinforces the negative influence on fraudulent financial reporting because the independent commissioners help to monitor the quality of the information in financial reports that supported by an independent opinion that given by audit committee. Besides that, the implementation of good corporate governance is carried out to prevent managers, or other organizational structures are committing fraudulent financial reporting.

According to the result, it can be interpreted that Good Corporate Governance is not a moderator for the audit committee on fraudulent financial reporting. This is because the audit committee is one part of the corporate governance mechanism that was formed to assist the board of commissioners in carrying out their duties by fulfilling the Good Corporate Governance principles, namely, transparency, accountability, responsibility, independence, and fairness. In addition, the audit committee is an organ that protects the financial users from management fraud. The audit committee has an important role in carrying out independent oversight of drafting the financial reporting process and issued a professional opinion about the truth and accuracy of the company's financial statement.

## V. CONCLUSION, LIMITATIONS, AND RECOMMENDATIONS

### A. *Conclusion*

1. Financial distress has a significant positive influence on fraudulent financial reporting. It implies that the higher financial distress shows the condition of the company's operations or company profit is not sufficient to fulfill company obligations; it provides an opportunity for management to commit fraudulent financial reporting.

2. Financial expertise of the audit committee has a significant negative influence on fraudulent financial reporting. It implies that the more audit committee members who have financial expertise will empower the audit committee to conduct an independent assessment and increase the effectiveness in assessment and review external audit reports so it will be able to reduce the occurrence of fraudulent financial reporting.

3. Good Corporate Governance weakens the positive influence of financial distress on fraudulent financial reporting. It implies that the implementation of Good Corporate Governance in companies can reduce financial distress conditions so it can increase the level of free on fraudulent financial reporting committed by management. The implementation of Good Corporate Governance will provide simultaneously to the company's performance, financial health, management, internal control, and compliance in order to achieve a more transparent company management for all users of financial statements.

4. Good Corporate Governance weakens the negative influence of audit committees on fraudulent financial reporting. It implies that the implementation of Good Corporate Governance in companies does not reinforce the influence of audit committees of free on fraudulent financial reporting. Good Corporate Governance is not a moderator for the audit committee on fraudulent financial reporting because the audit committee is one part of the corporate governance mechanism that was formed to assist the board of commissioners in carrying out their duties. In addition, the audit committee is an organ that protects the financial users from management fraud, so they do not need the moderation of good corporate governance to reduce fraudulent financial reporting.

### B. *Limitations*

This study has a limited sample of listed manufacturing companies on the Indonesia Stock Exchange (IDX), specifically in the consumer goods sector; the number of selected samples is 13 companies within three years of 2017-2019.

### C. *Recommendations*

1. For further research, it would be better if using different industry sectors such as real estate, banking, or others in Indonesia Stock Exchange as the research sample.
2. For further research, it would be better if add other independent variables such as size, company size, audit opinion, audit tenure, auditor independence, and others to increase the knowledge about fraudulent financial reporting in Indonesia.
   For further research, it would be better if the year of research were longer in order to produce the conclusions accurately

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