



The Effect of Number of Audit Committee Meetings, Company Size, Leverage and Managerial Ownership on Financial Reporting Fraud in Service Companies on the IDX

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ARTICLE INFO

Article history:

Received: 10/04/2021

Revised: 20/04/2021

Accepted: 30/04/2021

Keywords:

Number of Audit Committee Meetings, Company Size, Leverage, Managerial Ownership, Financial Reporting Fraud.

ABSTRACT

The study was conducted to understand the effect of the variable number of audit committee meetings, company size, leverage, and managerial ownership on financial reporting fraud. Financial reporting fraud is obtained by using the Beneish M-score index. While the population is taken from service companies in the service, trade and investment sub-sector which are listed on the IDX in 2017-2019. The research was conducted using quantitative methods with purposive sampling technique with a total sample of 96 data and data analysis using logistic regression analysis. From the data processing, it was concluded that only one independent variable was managerial ownership which had an effect on the dependent variable while the other three independent variables (number of audit committee meetings), firm size, leverage) does not have a significant effect on the dependent variable.

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1. Introduction

Service, trade and investment subsectors including a sector that is listed on the IDX and is currently developing rapidly. The main activity of this sector is to offer services to consumers. Through this activity, the company will benefit and become a trigger for fraud. Based on OJK regulation No. 29 / POJK.04 / 2016 issuers with the status of Tbk are required to do financial reporting. Sound financial reporting will attract the public to invest. So that many companies commit fraud to produce sound financial reporting. This fraudulent financial reporting is carried out by displaying the contents of the financial statements according to the wishes of the report maker and disclosing false information or deleting the number of reports intentionally to deceive report users.

Such as the incident at PT Garuda Indonesia (Persero) Tbk that occurred in 2018, Garuda Indonesia recorded a profit amounting to USD 809.85 thousand which increased rapidly after 2017 a loss of USD 216.5 million. And two commissioners of Garuda Indonesia argued that the 2018 financial statements contradict PSAK. It is proven that the inclusion of PT Mahata Aero Teknologi's debt is an advantage for Garuda Indonesia. BEI called the Garuda Indonesia board of directors for this incident (Oke Zone, 2019). In this case, the company's internal control did not work well, as evidenced by the imposition of sanctions by the IDX, OJK, Ministry of Finance to commissioners, directors, and internal auditor Garuda Indonesia. Internal control of the company is carried out by the audit committee, the task of the audit committee is very important. So an audit committee must fully understand the ins and outs, the structure of the company, and the problems at hand. In order to understand the company, the audit committee must meet regularly to monitor and detect early indications of fraud.

Fraud can occur in large and small companies. The size of the company is not a guarantee that the company will not commit fraud. As in the above case, Garuda Indonesia is known as the largest airline in Indonesia. But to get a bigger profit, financial statements are manipulated. In assessing the financial health of a company, it is also necessary to pay attention to the amount of debt it has. Ratio *Leverage* describes the proportion of company debt. *Leverage* high risk of experiencing default is high if the company does not generate profits. High leverage will reduce public investment interest and creditors in providing loans. So that the company's management will try to reduce the leverage ratio by manipulating the company's profit value for the better.

Fraudulent acts are usually carried out by parties who have control over financial reporting decisions. Therefore, managerial ownership or managerial shareholders need to be monitored because it is considered to



be one of the potential factors for fraud due to being directly involved in company activities. By owning shares in the company, the management of the company will strive so that the reciprocal investment can benefit him.

2. Literature review

2.1 The Effect of the Number of Audit Committee Meetings on Financial Reporting Fraud

The audit committee is obliged to hold a meeting to discuss the audit process and the company's financial statements. If done consistently, it is expected to be able to review company reports properly and detect if there is fraud in financial reporting. Khairani, et al (2020) state that routine meetings indicate the success of the audit committee in fulfilling its responsibilities in monitoring financial reporting and controlling difficulties such as earnings management. Tarmizi Achmad (2020) strengthens this statement by proving that routine meetings are able to minimize fraud.

2.2 The Effect of Company Size on Financial Reporting Fraud

Total company assets become a benchmark for company size, Widya Nur Anisa (2012) said firm size is not an important factor in earnings management. Earnings management is classified as fraud because earnings management is able to intervene in the making of external financial reporting. It is this reason that makes company size not an important factor in the occurrence of fraud. There are more important aspects, namely the quality of internal control and the morality of corporate governance.

2.3 The Effect of Leverage on Financial Reporting Fraud

Leverage is the company's operational financing from loan funds that bear interest. Andrian Budi Prasetyo (2014) stated Control by creditors to company management has not been able to minimize fraudulent financial reporting that may occur. This causes the leverage on the company to be insufficient to prevent fraud.

2.4 The Effect of Managerial Ownership on Financial Reporting Fraud

Managerial ownership is the participation of company officials in owning shares in the company where they work. Widya Nur Anisa (2012) states that the increasing number of shares owned by company managers can reduce the risk of fraud because managers who own shares will try to make the company have a long life in order to avoid losses. Meliala (2018) strengthens this statement with the results of his research which shows that managerial ownership is very little, so it has no influence in determining accounting policies.

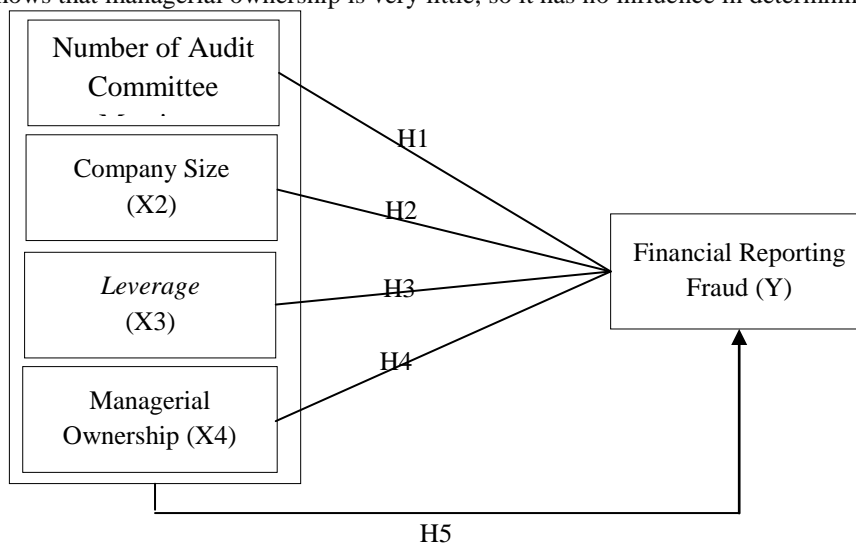


Fig 1.conceptual framework

Information :

- H1 : The number of audit committee meetings has no significant effect on fraudulent financial reporting
- H2 : Company size has no significant effect on fraudulent financial reporting
- H3 : *Leverage* does not have a significant effect on fraudulent financial reporting
- H4 : Managerial ownership has no significant effect on fraudulent financial reporting
- H5 : Number of audit committee meetings, company size, *leverage* and managerial ownership has no significant effect on fraudulent financial reporting

3. Research methodology

3.1 Research methods

The use of quantitative methods in this research is due to using numbers in the measurement of the research. Fraudulent financial reporting which is the dependent variable of this study is measured using the Beneish M-score index with indicators > - 2.22 manipulators and <-2.22 non manipulators.

3.2 Population

The total population of this study were 164 service companies in the trade, services & investment sub-sector on the IDX during 2017-2019.

3.3 Sample Determination

Samples were selected using purposive sampling technique based on specific standards as follows:

Table 1.

Sample Determination

No.	Criteria	amount
1.	Number of service companies subtrade, services & investment sectors listed on the IDX in 2017-2019	164
2.	The number of companies that do not upload financial reports every year in the 2017-2019 period	(74)
3.	The number of companies that do not have managerial share ownership each year in the 2017-2019 period	(49)
4.	Number of companies where data on audit committee members are incomplete every year in the 2017-2019 period	(5)
5.	The number of companies that recorded their financial statements not using the Rupiah currency in the 2017-2019 period	(4)
	Number of companies	32
	Number of samples = 32x3 years	96

3.4 Operational definition

This study uses 4 independent variables & 1 dependent variable.

Table 2.

Operational definition

Variable	Definition	Indicator	Scale
1. Fraudulent financial reporting	Fraudulent financial statements are the improper recording of amounts in the financial statements which are carried out in a conscious state.	Gives a value of 1 if there is fraud in financial reporting and a value of 0 if there is fraud in financial reporting.	Dummy
2. Number of Audit Committee Meetings	The number of audit committee meetings is the total meetings held by the audit committee during the year in accordance with Bapepam-LK regulation number: kep-643 / BL / 2012, at least 4 times a year.	Gives a score of 1 if he holds meetings at least 4 times a year and a score of 0 if not more than 4 times a year	Dummy
3. Size company	Company size defines the size of the company.	Natural logarithm (Ln) of the company's total assets.	Nominal
4. Leverage	<i>Leverage</i> is a scale used to observe the level of use of debt in company spending	Divide total debt by total assets	Nominal
5. Managerial Ownership	Managerial ownership in the sense is the shares belonging to the management of the company Bernandhi (2013).	Add up all share ownership by management.	Nominal

3.5 Data analysis technique

a. Logistic Regression

Logistic regression used because the number of Audit Committee Meetings (X1) and the dependent variable, namely Financial Reporting Fraud (Y), are dummy variables. Data processing is assisted by

SPSS software.

The logistic regression equation is as follows:

$$\ln \frac{p}{1-p} = b_0 + b_1JR + b_2UP + b_3LV + b_4KM + e$$

Information :

$\ln \frac{p}{1-p}$	= Fraudulent financial reporting
X0	= Constant
b1, b2, b3, b4	= Coefficient Variable
JR	= Number of committee meetings audit
UP	= Size company
LV	= Leverage
KM	= Ownership structure managerial
e	= Standard Error

b. Classic assumption test

According to Imam Ghozali (2012: 103), four test models were carried out in the form of Normality, Multicollinearity, Autocorrelation & Heteroscedasticity tests. This research only requires Multicollinearity Test.

c. Coefficient of Determination

According to Ghozali (2018), this test calculates the amount of a model's ability to explain variations in the dependent variable.

4. Results and Discussion

4.1 Logistic Regression Testing

a. Test the Whole Model

Table 3
Iteration History

Iteration	-2 Log Likelihood
Block 0	131,580
Block 1	121,399

The Iteration block 0 table above has a log likelihood value of 131.580 before adding the independent variable, which means the dependent variable does not fit the data. Meanwhile, Iteration block 1 shows a value of -2 Log likelihood of 121.399 which means that the value has decreased from block 0. This means that the dependent variable is fit with the data because the independent variable has been entered.

Table 4
Omnibus Test of Model Coefficients

	Chi-square	df	Sig.
Step 1 Step	10,181	4	.037
Block	10,181	4	.037
Model	10,181	4	.037

The Omnibus table above shows a significance of 0.037 where <0.05, which means the variables are simultaneously influential.

b. Hosmer and Lemeshow Goodness-of-fit test

Table 5
Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	10,672	8	.221

The table above shows a significance of 0.221, which means that it has a significant effect because it is > 0.05. These results explain that the logistic regression model can describe the absence of differences between the model and its observation value.



4.2 Multicollinearity Testing

Table 5
Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics		
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	.136	.873		.156	.877		
	JR	-.217	.223	-.097	-.975	.332	.991	1,009
	UP	.028	.029	.099	.973	.333	.959	1,043
	LV	-.250	.184	-.135	-1,354	.179	.998	1,002
	KM	-.932	.415	-.229	-2,244	.027	.952	1,051

a. Dependent Variable: KPK

VIF coefficients have a value around 1 but not more than 10 and tolerance is below 1. So that there is no multicollinearity in the research regression model.

4.3 Determination Coefficient Testing

Table 6
Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	121.399a	.101	.135

a. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.

In the table of the results of the determination coefficient test, it is stated that the Nagelkerke R Square above has a value of 0.135, which means that the results indicate that the dependent variable which is able to be explained by the independent variable is 13.5%, the remaining 86.5% is explained by other variables.

4.4 Regression Model Testing

Table 7
Variables in the Equation

	B	SE	Wald	df	Sig.	Exp (B)
Step 1a JR	-1,042	1,143	.830	1	.362	.353
UP	.125	.126	.975	1	.324	1,133
LV	-1,139	.833	1,870	1	.171	.320
KM	-4,436	2,108	4,429	1	.035	.012
Constant	-1,506	3,827	.155	1	.694	.222

a. Variable (s) entered on step 1: JR, UP, LV, KM.

Logistic regression testing used a significance limit of 5% (0.05). If the significance > 0.05 indicates that the hypothesis cannot be accepted, and <0.05 means that the hypothesis can be accepted. From the tests carried out, it can be concluded that the logistic regression equation is:

$$\ln \frac{p}{1-p} = -1,506 - 1,042JR + 0,125UP - 1,139LV - 4,436KM$$

4.5 Interpretation of Results

a. The Effect of the Number of Audit Committee Meetings on Financial Reporting Fraud

From the coefficient logistic regression test, it was found that the results of the number of Audit Committee meetings were -1.042 and the significance value was 0.362 > 0.05, which means that it has no effect (H1 is rejected). This value contradicts the theory above, which states that the number of meetings affects fraud in financial reporting. And it is inversely proportional to the research of Khairani Erlie Nurliasari, Tarmizi Achmad, 2020.

Meetings that are conducted consistently can still experience fraudulent financial reporting. This is due to the absence of any follow-up actions by the management or commissioners on the results of the meetings held by the audit committee. However, it is in line with Andrian Budi Prasetyo's research, 2014 where it is said that the frequency of audit committee meetings has a significant effect on fraudulent financial reporting.



b. The Effect of Company Size on Financial Reporting Fraud

After testing the logistic regression, the coefficient results on Company Size are 0.125 and result of The significance value is $0.324 > 0.05$, meaning that the data has no effect (H2 is rejected). This value states that the size of the company as seen from the natural logarithm of the company's total assets cannot be a reference for identifying fraud by the company.

The results of this research are in line with the results of Widya Nur Anisa 2012, and Hapsari (2014) where it is stated that there is no significant effect of company size on fraudulent financial reporting. But it is very inversely proportional to research conducted by Andrian Budi Prasetyo (2014), which states that agency will increase in proportion to the size of the company.

c. The Effect of Leverage on Financial Reporting Fraud

The logistic regression test shows that the leverage coefficient is -1.139 with a significance value of $0.171 > 0.05$, which indicates that the data has no effect (H3 is rejected). Leverage, when viewed from the company's total debt, cannot indicate that the company is committing fraud because the supervision carried out by the credit provider is considered ineffective to oversee the occurrence of fraudulent financial reporting.

The results of this research are in line with the results of Andrian Budi Prasetyo (2014) which proves that there is no significant effect of leverage on fraudulent financial reporting. but contrary to the results of research by Haposan Arthur F. Turnip (2020) which proves that leverage as measured by the Debt To Assets Ratio is acceptable because it has a significant effect.

d. The Effect of Managerial Ownership on Financial Reporting Fraud

In the logistic regression test, it is known that the managerial ownership coefficient is -4.436 with a significance of $0.035 < 0.05$, which means that there is a significant effect on fraudulent financial reporting (H4 accepted). It proves that managerial ownership, which can be seen from the ownership of management shares, has an effect on fraud because management who owns shares in the company will try to get a return on investment that can be profitable.

The results of this research In line with the results of Puput Nur'aini, Diyah Probowulan, Astrid Maharani (2019) who also stated that managerial ownership has an effect on fraudulent financial reporting but is different from research conducted by Meliala (2018) where the results of his research show that managerial ownership is very little, so that it has no influence in determining accounting policies.

e. The Effect of Number of Meetings, Company Size, Leverage, and Managerial Ownership on Financial Reporting Fraud

Omnibus Test used as a test to determine the effect between variables simultaneously. On the results of the omnibus test, it is known that the chi square results are 10,181 and the significance value is $0.037 < 0.05$. The value obtained indicates that the relationship between the independent variables, namely the number of meetings, company size, leverage, and managerial ownership has a simultaneous effect on the dependent variable, namely fraudulent financial reporting (H5 accepted).

This proves that in a situation the four independent variables can trigger fraud. The simultaneous influence between the number of meetings, company size, leverage, and managerial ownership on fraudulent financial reporting is because these four independent variables are related to making important company decisions and taking part in the company's internal control. So that it can be an influence on fraudulent financial reporting.

5. Conclusion

After conducting the Logistic Regression Test and Hypothesis Test, the researcher can conclude that this test can prove that there is no significant effect of the number of audit committee meetings, company size, and leverage on fraudulent financial reporting of service companies on the IDX. Meanwhile, in the tests conducted for Managerial Ownership, there is a significant effect on fraudulent financial reporting.

The limitation of this research is that it lies in the research sample which only focuses on service companies on the IDX and after selecting the sample, it only gets 96 samples for a total of 3 years of research.

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