

The Effect of Audit Quality, Audit Committee, and Financial Stability on Financial Statement Fraud in Consumer Non-Cyclicals Manufacturing Companies Listed on the IDX 2020-2024

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ABSTRACT

This study aims to analyze the effect of audit quality, audit committee, and financial stability on financial statement fraud in consumer non-cyclicals manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2024 period. A quantitative approach using binary logistic regression was applied to 310 observations selected through a purposive sampling process. The Beneish M-score was used to detect fraud in financial statements and was then classified into dummy variables. Audit quality is measured as a dummy variable based on audit firm size (Big 4 and Non-Big 4), the audit committee is measured by the proportion of members with accounting or finance expertise, while financial stability is proxied using changes in total assets (ACHANGE). The analysis shows that neither audit quality nor the audit committee has an effect on financial statement fraud, whereas financial stability does have a significant impact. These findings indicate that audit quality and audit committee measures require more comprehensive indicators to capture oversight effectiveness, while financial stability remains a relevant factor in explaining fraud. Practically, companies are encouraged to strengthen audit quality and internal oversight beyond auditor size, enhance audit committee effectiveness beyond expertise composition, and closely monitor financial stability to help prevent financial statement fraud.

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1. INTRODUCTION

Stakeholders use financial statements to evaluate a company's performance, financial stability, and future prospects. Financial statements are an important foundation for making economic decisions among various stakeholders [1]. In practice, financial statements are often inaccurate due to conflicts of interest among internal

stakeholders, thereby potentially encouraging management to engage in fraudulent activities [2].

Fraud in financial statements has the greatest impact worldwide, with average losses reaching USD 766,000 per case [3]. According to the 2024 Report to the Nations, manufacturing companies are among the sectors with significant fraud rates, with a total of 175 cases and 6% of them involving

financial statement fraud [3], showing a major risk associated with fraudulent practices in this sector.

The high risk is closely linked to the complex operational characteristics of manufacturing companies, especially in managing inventory, determining production costs, and using accounting estimates in asset valuation, which opens up opportunities for inventory valuation manipulation, production cost engineering, and asset misrepresentation. The financial condition of manufacturing companies, which tends to be fluctuating, also affects the company's financial stability [4], and financial instability can drive management to disclose financial information that does not reflect the actual situation [5]. This issue is reflected in the case involving PT Tiga Pilar Sejahtera Food Tbk, which engaging in financial shenanigans, like inflating assets and recording revenue inaccurately. Fraud cases in Indonesia indicate that this issue remains a serious challenge [6].

Conflicts of interest between principals and agents arise due to differences in objectives and information asymmetry, as explained by agency theory [7], which encourages opportunistic managerial behavior including financial statement manipulation. To mitigate conflicts of interest and information asymmetry, external monitoring is provided through audit quality, whereas internal monitoring is strengthened by the audit committee. Furthermore, the company's financial stability may influence management's financial reporting behavior. Fraud in financial reporting happens when management intentionally presents material information that misleads report users in making economic decisions. [8]. This study uses the Beneish M-Score [9],[10] as an early detection indicator of fraud, supported by financial ratios from previous research [11], [12].

Previous research on the effect of audit quality, audit committees, and financial stability on financial statement fraud still shows inconsistencies. Financial stability was found to have an effect in studies [4], [13] but not in other studies [14], [15]. Similarly, audit

quality was found to have an effect in some studies [4], [14], [15], but not in others [16], [17]. Audit committees were also found to have an effect in some studies [18], [19], [20] but not in others [13], [21], [22].

This research analyzes consumer non-cyclicals manufacturing because of their complex operational characteristics, high transaction volumes, and extensive use of accounting estimates that increase potential for fraudulent financial reporting. In this sector, accounts like inventory, receivables, sales, and assets that are part of the Beneish M-Score are more susceptible to manipulation, which could potentially lead to findings that differ from previous studies. This research covers the observation period from 2020-2024, representing the pandemic and post-pandemic era, and empirically examine the impact of audit quality, audit committees, and financial stability in the context of financial statement fraud in this sector.

2. LITERATURE REVIEW

2.1 *Agency Theory*

According to agency theory, differences in objectives between company owners (principals) and management (agents), together with information asymmetry, give rise to conflicts of interest [7]. The information advantage held by management over the principals may encourage opportunistic behavior, such as financial statement fraud [15]. Audit quality serves as external supervision, and the audit committee provides internal oversight to improve the reliability of financial statements, while the company's financial stability also affects agency conflicts because financial instability can push management to manipulate financial reports to maintain company performance [5].

2.2 *Financial Statement Fraud*

Financial statement fraud involves the deliberate manipulation of financial information to mislead users' decision-making [8], which according to agency theory is triggered by conflicts of

interest and information asymmetry between management and shareholders [7]. Previous studies examined audit quality and audit committees [23], financial stability [13], as well as all three variables together [14] in relation to financial statement fraud. In this study, financial statement fraud is proxied using the Beneish M-Score [9], [10], with the results classified into a dummy variable: 1 for companies suspected of fraud and 0 for those not suspected.

2.3 Audit Quality

Audit quality reflects the auditor's ability supported by their competence and independence to detect and report misstatements in financial statements. [24]. Agency theory views audit quality as an external control that reduces information asymmetry and conflicts of interest [7]. Auditors with high professionalism, expertise, and integrity are more capable of detecting fraud in financial reports, which increases transparency and the reliability of a company's financial disclosures [25]. This study measures audit quality with a dummy variable: a value of 1 for companies audited by Big 4 accounting firms and 0 for Non-Big 4 firms, because Big 4 firms are considered to have better reputation, resources, and audit experience. The audit quality of the Big 4 tends to produce stronger audit opinions and more effective audit processes [26]. Previous research shows mixed results: some find that audit quality affects financial statement fraud [4], [14], [15], while other studies find no effect [16], [17].

2.4 Audit Committee

The audit committee is established to monitor the company's financial reporting [27]. According to the Financial Services Authority Regulation No. 59/POJK.04/2016, the audit committee is responsible for providing independent professional evaluations to the board of commissioners [28]. From the perspective of agency theory, the audit committee functions as an internal governance

mechanism that helps minimize information asymmetry and conflicts of interest between principals and agents [7]. The effectiveness of the audit committee is reflected in its independence, accounting expertise, and meeting frequency, which can strengthen the internal control system and improve reporting accountability [22]. The audit committee is measured by the proportion of members with accounting or finance expertise, as members with such skills are considered better able to understand financial statements, evaluate internal controls, and detect signs of fraud. The higher the proportion of audit committee members who have expertise in accounting or finance, the more effective the oversight of the company's financial reporting process, which can reduce the likelihood of financial statement fraud. Previous studies have shown that the audit committee affects financial statement fraud [18], [19], [20], but other studies show no effect [13], [21], [22].

2.5 Financial Stability

Financial stability reflects a company's ability to maintain and achieve balanced and sustainable financial performance [29]. According to agency theory, this condition can worsen conflicts of interest between owners and managers [7], and in situations of declining financial performance, management often presents financial reports that do not fully represent the actual condition [5]. Financial stability is measured by changes in total assets (ACHANGE), which is the comparison of total assets of the current period with the previous period [30]. High asset changes reflect company growth, while low or declining changes indicate financial instability. Previous research shows that financial stability affects financial statement fraud [4], [13], but other studies show no effect [14], [15].

2.6 Hypothesis Development

Based on agency theory and prior empirical studies, this research proposes that audit quality, audit committee, and

financial stability are associated with financial statement fraud. Audit quality is viewed as an external monitoring mechanism that helps reduce information asymmetry and limits opportunistic actions by management. At the same time, the audit committee plays an internal governance role by enhancing oversight of the financial reporting process and corporate governance. Furthermore, fluctuations in a company's financial condition may place pressure on management to sustain financial performance, thereby increasing the risk of financial statement fraud. Accordingly, audit quality, audit committee, and financial stability are treated as the independent variables, while financial statement fraud is designated as the dependent variable. Based on this framework, the following research hypotheses are proposed.

H₁: Audit quality affects financial statement fraud in consumer non-cyclicals manufacturing

H₂: Audit committee affects financial statement fraud in consumer non-cyclicals manufacturing

H₃: Financial stability affects financial statement fraud in consumer non-cyclicals manufacturing.

These hypotheses aim to empirically examine the extent to which audit quality, audit committee, and financial stability influence the occurrence of financial statement fraud.

3. METHODS

3.1 Types of Research

This study uses a quantitative methodology, which involves processing data in numerical form and analyzing correlations between variables through statistical techniques to test hypotheses [31]. This research uses a causal associative design to find out the causal relationship between audit quality, audit

committee, and financial stability on financial statement fraud in consumer non-cyclicals manufacturing companies listed on the Indonesia Stock Exchange during the 2020-2024 period.

3.2 Population and Sampling Method

The study population consisted of 132 manufacturing companies in the non-cyclical consumer goods sector, resulting in 660 data observations. The sample selection used purposive sampling based on the following criteria: (1) consumer non-cyclicals manufacturing companies listed on the IDX during the 2020-2024; (2) issuing annual reports during that period; (3) presenting financial reports in rupiah; and (4) having complete financial data for calculating the Beneish M-Score with the base year (t-1) 2019.

3.3 Types and Sources of Data

This study uses secondary data in the form of panel data obtained from annual reports during the 2020-2024 period, which can be accessed on the official Indonesia Stock Exchange website.

3.4 Variable Definition and Measurement

The Beneish M-Score model was employed to detect indications of financial statement fraud [9], [10]. Companies were classified as likely committing fraud if the M-Score > -2.22, and not likely committing fraud if the M-Score < -2.22, with the formula as follows:

$$\begin{aligned}
 M\text{-Score} = & -4.84 + 0.920DSRI \\
 & + 0.528GMI \\
 & + 0.404AQI \\
 & + 0.892SGI \\
 & + 0.115DEPI \\
 & - 0.172SGAI \\
 & - 0.327LVGI \\
 & + 4.679TATA
 \end{aligned}$$

The calculation for the Beneish M-Score is as follows:

3.5 Variable Definition and Measurement

Table 1. Beneish Ratio Index Model

Ratio	Formula
DSRI (Day Sales in Receivable Index)	$\frac{\text{Accounts Receivable}_t / \text{Sales}_t}{\text{Accounts Receivable}_{t-1} / \text{Sales}_{t-1}}$
GMI (Gross Margin Index)	$\frac{\text{Gross Profit}_t / \text{Sales}_t}{\text{Gross Profit}_{t-1} / \text{Sales}_{t-1}}$
AQI (Asset Quality Index)	$\frac{1 - (\text{Current Assets}_t + \text{PPE}_t) / \text{Total Assets}_t}{1 - (\text{Current Assets}_{t-1} + \text{PPE}_{t-1}) / \text{Total Assets}_{t-1}}$
SGI (Sales Growth Index)	$\frac{\text{Sales}_t}{\text{Sales}_{t-1}}$
DEPI (Depreciation Index)	$\frac{[\text{Depreciation}_{t-1} / (\text{PPE}_{t-1} + \text{Depreciation}_{t-1})]}{\text{Depreciation}_t / (\text{PPE}_t + \text{Depreciation}_t)}$
SGAI (Sales, General & Admin. Expense Index)	$\frac{(\text{Selling, General, and Administrative Expense}_t / \text{Sales}_t)}{(\text{Selling, General, and Administrative Expense}_{t-1} / \text{Sales}_{t-1})}$
LVGI (Leverage Index)	$\frac{[(\text{Non Current Liabilities}_t + \text{Current Liabilities}_t) / \text{Total Assets}_t]}{[(\text{Non Current Liabilities}_{t-1} + \text{Current Liabilities}_{t-1}) / \text{Total Assets}_{t-1}]}$
TATA (Total Accrual to Total Asset)	$\frac{(\text{Operating Profit}_t - \text{Cash Flow From Operating Activities}_t)}{\text{Total Assets}_t}$

Source: Rukmana & Nababan [32]

Table 2. Operational Definition and Variable Measurement

Variable	Definition	Indicator
Audit Quality (X ₁)	Audit quality is defined as the likelihood that an auditor will detect and disclose misstatements in financial statements, reflecting the auditor's competence and independence [24]	Dummy variable: 1 = audited by a Big 4 accounting firm; 0 = audited by a Non-Big 4 accounting firm
Audit Committee (X ₂)	The audit committee was formed to oversee the company's financial reporting procedures [27]	Audit committee proportion = $\frac{\text{Member with accounting/finance expertise}}{\text{Total committee audit}}$
Financial Stability (X ₃)	The company's ability to maintain balanced and sustainable financial performance [29]	$\text{ACHANGE} = \frac{\text{Total Assets}_t - \text{Total Assets}_{t-1}}{\text{Total Assets}_{t-1}}$
Financial Statement Fraud (Y)	Financial statement fraud is an intentional act to manipulate the information in financial statements	Dummy variable based on the Beneish M-Score: 1 = indicated fraud; 0 = not indicated fraud

Variable	Definition	Indicator
	so that it misleads users in decision-making [8]	

3.6 Analysis Method

Data analysis was done using SPSS Statistics version 26 with the binary logistic regression method, since the dependent variable is dichotomous (dummy) [31]. The analysis was conducted using descriptive statistical analysis, overall model fit, an omnibus test of model coefficients, nagelkerke R-squared, the Hosmer and Lemeshow test, a classification table, and the Wald test. The binary logistic regression model is formulated as follows:

$$\text{Ln} \left(\frac{P}{1-P} \right) = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Description:

$\text{Ln} \left(\frac{P}{1-P} \right)$ = logit function of financial statement fraud (dummy variable, with 1

= indicated fraud and 0 = not indicated fraud)

X_1 = Audit Quality

X_2 = Audit Committee

X_3 = Financial Stability

α = Constant

$\beta_1, \beta_2, \beta_3$ = Regression coefficients

e = error term.

4. RESULTS AND DISCUSSION

4.1 Research Samples and Population

The population of this study consisted of 132 consumer non-cyclicals manufacturing. The research sample included companies that met certain criteria using a purposive sampling technique. Details regarding the number of samples and research observations are presented in table 3 below:

Table 3. Number of samples and research observations

Sample Selection Criteria	Amount	Research observations (5 years)
Consumer non-cyclicals manufacturing companies listed on the Indonesia Stock Exchange during the 2020-2024 period.	132	660
Companies that did not publish annual reports for the 2020-2024 period	(65)	(325)
Companies reporting in currencies other than Indonesian Rupiah	(2)	(10)
Companies that don't have financial data to calculate the Beneish M-Score ratio using the base year (t-1) 2019.	(3)	(15)
The number of samples that meet the criteria	62	310

Source: Processed secondary data (2026)

Based on table 3, after applying the purposive sampling criteria, 62 companies met the research criteria,

resulting in a total of 310 data observations over a 5-year period.

4.2 Descriptive Statistics

Table 4. Descriptive Statistics of Frequency

Frequency Distribution				
Variable	Category		Frequency	Percent
Financial Statement Fraud	NON FRAUD		182	58.7%
	FRAUD		128	41.3%
	Total		310	100%
Audit Quality	Non-Fraud	KAP Big 4 (1)	89	48.9%
		KAP Non-Big 4 (0)	93	51.1%
		Total	182	100%

Frequency Distribution				
Variable	Category		Frequency	Percent
	Fraud	KAP Big 4 (1)	49	38.3%
		KAP Non-Big 4 (0)	79	61.7%
		Total	128	100%

Source: SPSS Data Processing Results, 2026

Table 5. Descriptive Statistics

Companies classified as non-fraud					
Audit Committee	182	0.0000	1.0000	0.7513	0.2155
Financial Stability	182	-0.5	0.66	0.0307	0.1364
Companies classified as fraud					
Audit Committee	128	0.0000	1.0000	0.7213	0.2355
Financial Stability	128	-0.59	2.18	0.0813	0.2452

Source: SPSS Data Processing Results, 2026

This study used 310 observations, as shown in table 4 the variable for financial statement fraud shows that companies not indicated for fraud are more dominant, with 182 observations (58.7%), while companies indicated for fraud amount to 128 observations (41.3%). The frequency distribution of audit quality shows that, out of 182 non-fraud observations, 89 observations (48.90%) were audited by Big 4 accounting firms (audit quality = 1), while 93 observations (51.10%) used Non-Big 4 accounting firms (audit quality = 0).

The results show that companies not suspected of committing financial statement fraud are fairly evenly spread between using Big 4 and Non-Big 4 audit firms, with Non-Big 4 firms having a slightly higher share. Among the 128 observations classified as fraud, 49 observations (38.30%) were audited by Big 4 accounting firms (audit quality = 1), whereas the remaining 79 observations (61.70%) were audited by Non-Big 4 accounting firms (audit quality = 0). These percentages indicate that companies suspected of financial statement fraud are more often audited by Non-Big 4 firms compared to Big 4 firms. Descriptively, the data suggests that companies using Big 4 firms have a lower proportion of fraud cases compared to those using Non-Big 4 firms.

The audit committee was measured using the proportion of

members with expertise in accounting or finance. For the non-fraud group, the proportion ranged from 0 to 1, with a mean of 0.7513 and a standard deviation of 0.2155. In the fraud group, the minimum and maximum values were also 0 and 1, respectively, while the mean and standard deviation were 0.7213 and 0.2355. These results indicate that, on average, 75.13% of audit committee members in non-fraud companies had accounting or finance expertise, compared with 72.13% in fraud companies.

The minimum value of 0 was found in the observations of PT Tiga Pilar Sejahtera Food Tbk (AISA) in 2023 and 2024, which shows that there are no audit committee members who are competent in accounting or finance. On the other hand, the maximum value of 1 indicates that there were observations in the research sample where all audit committee members had expertise in accounting or finance, meaning the proportion of audit committee members with such expertise reached 100%. Additionally, the average proportion is higher in non-fraud companies (75.13%) than in fraud companies (72.13%), although the difference is relatively small.

The financial stability variable for fraud companies has an average of 0.0814, which is higher compared to non-fraud companies at 0.0308. This value can be interpreted as fraud companies

experiencing larger changes in total assets (ACHANGE) compared to non-fraud companies. In addition, the value range for the fraud group (-0.59 to 2.18) is much wider than that of the non-fraud group (-

0.50 to 0.66), indicating a higher variation in financial conditions among companies suspected of financial statement fraud.

4.3 Overall Model Fit

Table 6. Overall Model Fit

2Log likelihood initial (block number = 0)	420.297
2Log likelihood final (block number = 1)	410.594

Source: SPSS Data Processing Results, 2026

The overall model fit test results show that the -2 Log Likelihood (-2LL) value dropped from 420.297 at Block Number = 0 to 410.594 at Block Number = 1. This decrease indicates that the model

fits the data better, so the logistic regression model used can be considered fit and suitable for testing the next hypothesis.

4.4 Omnibus Test of Model Coefficients

Table 7. Omnibus Test of Model Coefficients

		Chi-Square	df	Sig.
Step 1	Step	9.703	3	0.021
	Block	9.703	3	0.021
	Model	9.703	3	0.021

Source: SPSS Data Processing Results, 2026

Based on Table 7, the omnibus test yielded a significance value of 0.021. Since this value is less than 0.05, the regression model is deemed valid. These results indicate that audit quality, the

audit committee, and financial stability simultaneously enhance the model's ability to explain financial statement fraud.

4.5 Nagelkerke R-Square

Table 8. Nagelkerke R Square

Step	2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	410.594 ^a	0.031	0.042

Source: SPSS Data Processing Results, 2026

The nagelkerke R-square value presented in table 8 is 0.042, indicating that the independent variables included in the regression model can explain 4.2% of the variation in the probability of

financial statement fraud, while the remaining 95.8% is explained by other variables outside the model.

4.6 Hosmer and Lemeshow Test

Table 9. Hosmer and Lemeshow Test

Step	Chi-Square	df	Sig.
1	2.229	8	0.973

Source: SPSS Data Processing Results, 2026

The Hosmer and Lemeshow test showed a significance value of 0.973. The significance value > 0.05, which indicates

that the model is considered fit (goodness of fit), so this logistic regression model is suitable for further analysis.

4.7 Classification Table

Table 10. Classification Table

Observed	Predicted: Non Fraud	Predicted: Fraud	Correct Percentage
Non Fraud (FFR=0)	163	19	89.6%
Fraud (FFR=1)	102	26	20.3%
Overall Percentage			61.0%

Source: SPSS Data Processing Results, 2026

Table 10 shows that the logistic regression model has a classification accuracy (overall percentage) of 61.0%. The accuracy for companies classified as not committing fraud (non-fraud) is 89.6%, where out of 182 non-fraud observations, 163 were predicted correctly and 19 were misclassified. Meanwhile, the accuracy for companies classified as committing fraud is only 20.3%, where out of 128 fraud observations, only 26 were predicted correctly and 102 were misclassified.

The difference in classification accuracy is influenced by the composition of the research data, where the number of non-fraud observations is indeed higher than the number of fraud observations, in line with the characteristics of financial statement fraud, which is naturally a rare

event. This imbalance in data proportions causes logistic regression to tend to classify the majority group (non-fraud) better than the minority group (fraud), so the high classification accuracy for non-fraud mainly reflects the dominance of data in that group, not just the model's strength in detecting fraud. This results in still significant Type I and Type II errors in this study's model, especially the high Type II errors, meaning the model's ability to detect financial statement fraud is still limited.

4.8 Wald Test

The significance value of each variable was used as the basis for this test. If that value is less than 0.05 (Sig. < 0.05), then the effect of the independent variable on the dependent variable is considered significant [33].

Table 11. Logistic Regression Analysis Results (Variables in the Equation)

Variable	B	Sig.	Exp(B)	Results
Audit Quality	0.414	0.080	1.513	H ₁ Rejected
Audit Committee	-0.436	0.404	0.646	H ₂ Rejected
Financial Stability	1.599	0.041	4.950	H ₃ Accepted
Constant	-0.346	0.427	0.708	

Source: SPSS Data Processing Results, 2026

a. The Effect of Audit Quality on Financial Statement Fraud

Audit quality showed a p-value of 0.080 (>0.05), indicating that H₁ was rejected. This indicates that audit quality, as represented by Big 4 and non-Big 4 audit firms, does not affect financial statement fraud. The Exp(B) value of 1.513 indicates that companies audited by Big 4 firms have a 1.513 times higher chance of experiencing financial statement fraud compared to companies

audited by Non-Big 4 firms. However, since this relationship is not statistically significant, this tendency only applies to this research sample and cannot be generalized to other sectors or company characteristics.

High audit standards, extensive experience, strong reputations, and substantial resources characterize Big 4 audit firms. However, in this study, audit quality is proxied using Big 4 and Non-Big 4 firm sizes, so it does not fully

capture overall audit quality. This can happen because audit quality is not only determined by firm size, but also influenced by other factors like independence, auditor competence, professionalism, audit experience, and the effectiveness of audit procedures applied. Financial statement fraud is also often carried out systematically through manipulation of internal information, so it's not always easy for external auditors to detect.

According to agency theory, audit quality serves as an external monitoring mechanism aimed at reducing information asymmetry and conflicts of interest between management and shareholders. However, these results show that this role has not been proven empirically when audit quality is only measured through the size of the audit firm. In the consumer non-cyclicals sector, companies generally already have relatively stable reporting systems and are under the supervision of capital market regulators. This may explain why the influence of audit quality on financial statement fraud is not clearly distinguished between Big 4 and Non-Big 4 firms. Beyond audit firm classification, audit quality can be evaluated using proxies such as auditor industry specialization, audit tenure, audit fees, auditor switching, and audit team experience.

This finding is consistent with research from [16], [17] which also did not find any effect of audit quality on financial statement fraud. Companies need to make sure that the audit process is not only based on the reputation of the public accounting firm but also supported by sufficient auditor competence and independence, as well as strengthened by good internal controls and corporate governance to minimize the risk of financial statement fraud.

b. The Effect of Audit Committees on Financial Statement Fraud

The audit committee showed a p-value of 0.404 (>0.05), indicating that H_2

was rejected. This means that the proportion of audit committee members with accounting or financial expertise has not been able to reduce the likelihood of financial statement fraud. The Exp(B) value of 0.646 shows that the higher the proportion of audit committee members who have expertise in accounting or finance, the likelihood of financial statement fraud tends to decrease to 0.646 times compared to companies with a lower proportion. However, since this relationship is not statistically significant, this tendency only reflects the condition in the research sample and cannot be used to draw conclusions about other sectors.

Based on agency theory, the audit committee serves as an internal oversight mechanism that reduces information asymmetry between management and shareholders. However, the results of this study show that a high proportion of audit committee members with accounting or financial expertise has not been able to reduce financial statement fraud. The lack of significance in the audit committee's impact could be due to measurement limitations, which only consider the proportion of audit committee members with accounting or financial expertise, since a high or low proportion does not directly determine how effective the audit committee is at preventing financial statement fraud. Additionally, the effectiveness of the audit committee is also influenced by other factors such as member independence, meeting frequency, oversight intensity, involvement in internal control evaluation, and the quality of communication with internal and external auditors.

These results are in line with research [13], [21], [22], which found that audit committees do not have an impact on financial statement fraud. Companies should improve the effectiveness of audit committees not only in terms of skill composition but also by strengthening member independence, supervision intensity, and active involvement in

evaluating financial statements and internal controls so that the oversight function can work optimally in preventing financial statement fraud.

c. The Effect of Financial Stability on Financial Statement Fraud

Financial stability showed a p-value of 0.041 (<0.05), indicating that H_3 was accepted. This indicates that financial stability, as measured by changes in total assets, influences the occurrence of fraud in financial statements. An Exp(B) value of 4.950 indicates that companies with higher asset change rates have a 4.950 times higher chance of experiencing financial statement fraud compared to companies with lower asset change rates.

Research results show that high asset growth can increase the likelihood of financial statement fraud. This aligns with agency theory, where significant changes in financial conditions can drive opportunistic behavior by management due to the pressure to maintain financial stability. Companies experiencing rapid growth tend to try to sustain performance in the following periods, which encourages management to manipulate financial statements to meet investor and market expectations. As fluctuations in total assets increase, management faces greater pressure, thereby increasing the risk of fraud.

These results are in line with the research by [4], [13], which states that financial stability affects financial statement fraud. The similarity in findings shows that changes in a company's financial condition, measured through changes in total assets (ACHANGE), can be a factor that influences fraud. Therefore, companies, auditors, and regulators need to be more alert to the risk of fraud in companies experiencing significant asset changes and also strengthen internal oversight and risk control mechanisms to prevent management from taking actions that could harm stakeholders.

5. CONCLUSION

This study aimed to analyze the effect of audit quality, audit committee, and financial stability on financial statement fraud in consumer non-cyclicals manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The results show that audit quality and the audit committee have no significant effect on financial statement fraud, whereas financial stability has a significant effect, with companies experiencing higher asset growth being more likely to engage in financial statement fraud.

These findings indicate that external and internal oversight mechanisms, when proxied narrowly through audit firm size (Big 4 versus Non-Big 4) and the proportion of audit committee members with accounting or financial expertise, have not been sufficient to explain fraud behavior in this sample, suggesting that such measures do not fully capture the effectiveness of oversight functions. In contrast, consistent with agency theory, significant changes in a company's financial condition appear to increase the pressure management faces to meet performance expectations, thereby encouraging opportunistic behavior in financial reporting. This confirms that, within this research context, financial stability is a more relevant factor than audit quality or audit committee composition in explaining financial statement fraud.

From a practical standpoint, these findings point to concrete steps that companies, auditors, and regulators can take to prevent financial statement fraud. Since audit firm classification alone does not significantly reduce fraud risk, companies need to strengthen internal oversight, for example through continuous internal audit activities, whistleblowing systems, and regular internal control evaluations, rather than relying on external auditor reputation. Audit committees likewise need to be made more effective in practice, not only through their proportion of members with accounting or financial expertise, but also through greater member independence, higher meeting

frequency, and active involvement in reviewing financial statements and internal controls. Given that financial stability significantly affects fraud risk, companies, auditors, and regulators are further encouraged to closely monitor firms with significant fluctuations in total assets and treat such fluctuations as an early-warning signal that warrants additional scrutiny. Taken together, internal oversight, audit committee effectiveness, and financial stability monitoring represent key, practically applicable efforts to prevent financial statement fraud.

This study also has several limitations. The Nagelkerke R-square value is only 0.042 (4.2%), indicating that audit quality, audit committee, and financial stability are only able to explain 4.2% of the variation in financial statement fraud, while the remaining 95.8% is attributable to factors external to this research model. The logistic regression model in this study also still produces considerable Type I and Type II errors. The Type I error rate is 10.4% (19 of 182 non-fraud observations were misclassified as fraud), while the Type II error rate is 79.7% (102 of 128 fraud observations were misclassified as non-fraud). The high Type II error rate indicates that the model remains weak in detecting companies that engage in financial statement fraud.

Future research is suggested to use more comprehensive measurements of audit quality and audit committees, as well as include additional variables like company size, profitability, leverage, and internal control effectiveness to better enhance the model's ability to explain variations in financial statement fraud.

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