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Corporate Governance as a Determinant of Fraudulent Financial Statements in Banking Issuers Listed on the IDX in 2023/2024

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ABSTRACT

This paper explores how internal governance frameworks influence the occurrence of balance sheet manipulations among commercial banks listed on the IDX throughout the 2023–2024 fiscal years. Given their pivotal position in maintaining economic stability and market confidence, banking institutions were prioritized for this study, despite facing substantial vulnerabilities to misconduct due to rigorous compliance demands and complex transaction processing. Drawn from the annual corporate sheets of the investigated banks, the evidence is examined within a quantitative framework. By employing specific criteria under a purposive framework, 90 firm-year data points were generated from 45 finalized sample banks out of 47 available issuers. The F-Score algorithm was employed to assess fraudulent financial statements, which served as the dependent variable in the analysis. Meanwhile, the governance metrics serve as independent variables, specifically measured through institutional stock control and board of commissioners' autonomy. The regression path calculated via SPSS 23 demonstrates that the autonomy of the commissioners' board exerts a significant, inverse pressure on fraudulent practices, meaning that a larger presence of outside directors helps curtail reporting misstatements. Conversely, institutional ownership does not yield any noticeable outcome. Ultimately, the tested governance dimensions operate concurrently in dictating the overall risk of financial statement falsification.

Keyword: corporate governance; fraudulent financial statements; independence of the board of commissioners; institutional ownership

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INTRODUCTION

Financial statements are a primary communication medium between a company and its stakeholders for assessing financial condition, operating performance, and future prospects (Yulianti, 2025). The information presented in financial statements is used by investors, creditors, regulators, and other external parties as a basis for economic decision-making. Thus, corporate financial disclosures must be prepared with objectivity, transparency, and integrity to comply with the current accounting standards. This practice is most rigorous, ensuring that the disclosures are faithful to the firm's actual financial condition (Kusumawardhani, 2024). Reliable financial reporting is essential because inaccurate information may influence users' decisions and reduce their trust in the company. Deliberate misstatements committed by managers or employees through the presentation of financial reports that do not reflect actual conditions, either by omitting or concealing financial information that should be disclosed, are referred to as Fraudulent Financial Statements. In practice, such actions are still found when companies attempt to portray their condition as better than it actually is (Ndruru & Hutapea, 2022). Consequently, fraudulent financial reporting is a critical issue because it can lead users of financial data astray, which can eventually harm the integrity of financial decisions (Tarjo & Herawati, 2021).

Indonesia continues to confront significant fraud threats among 19 Asia Pacific countries, according to a 2024 study by the Association of Certified Fraud Examiners (ACFE), placing third with 25 reported incidents after China (33) and Australia (29). Globally, with 305 occurrences, the banking and financial services industry had the most fraud incidents, followed by manufacturing (175) and government/public administration (171). These findings highlight the persistent vulnerabilities in critical sectors that significantly affect investor confidence, market stability, and the integrity of corporate reporting. They underscore the need for continuous regulatory oversight, robust internal control mechanisms, and targeted governance practices across industries to mitigate fraud risks (ACFE, 2024).

The Indonesian capital market categorizes listed companies into 11 sectors, with the financial sector holding the largest market capitalization. Based on IDX data, the financial sector reached a market capitalization of IDR 3,550 trillion, far exceeding the infrastructure sector, which stood at IDR 2,003 trillion. This strong dominance reflects the strategic importance of the financial sector, especially banking, in shaping the Composite Stock Price Index (IHSG), maintaining market stability, and strengthening investor confidence (www.idx.co.id, 2024). Although the banking industry is subject to strict regulations, the complexity of internal control systems and pressure to achieve financial performance targets may still create opportunities for financial statement manipulation (Bank Indonesia, 2025). The 2023–2024 research period was chosen because it represents the latest phase of fraudulent financial statement risk in the banking sector. In contrast to 2020–2022, which was largely characterized by post-pandemic recovery, the 2023–2024 period reflects the growing impact of banking digitalization, more complex reporting processes, and a greater potential for manipulation (Putri *et al.,* 2025). This condition is further supported by OJK Regulation No. 12/2024 concerning Anti-Fraud Strategy, which requires stronger supervision and the implementation of comprehensive fraud-prevention mechanisms (OJK, 2024). In addition, ACFE (2024) reports that the financial sector continues to experience the largest global losses from fraud, confirming the high-risk nature of this issue. Therefore, the 2023–2024 period is considered highly relevant because it combines regulatory

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strengthening, the dominant role of the financial sector, and a shift from economic-driven risk to digital-driven risk, making it appropriate for examining corporate governance and fraud.

High rates of fraud in the banking industry can cause poor governance and low operational stability, which can ultimately lead to a lack of trust by the public (Juniarty & Kurniawati, 2025). During the 2008-2009 crisis, Bank Century demonstrated Fraudulent Financial Statement practices where the financial condition and asset quality presentation did not align with the actual risks (Prastyo *et al.,* 2022). Another example is Bank Bukopin, which revised its financial statements from 2015 to 2017 due to material misstatements in ways that misrepresented the credit card assets and receivables. This fraud was unveiled in 2018 (Tampongangoy, 2024). Regulatory practices to ensure financial statement accuracy have proven to be ineffective. The banking sector is important to the economy and has the potential to create systemic risk in the financial market if disruptions are caused (Aulia *et al.,* 2025). Much of the available funding for business ventures is collected through loans to banks (Sadikin & Agustina, 2023). The strategic role of banks in the industry and in public financing means that bank financial fraud impacts not only the internal operations of a bank but also the investing public and the capital market as a whole.

SCHEMES					
Category	Cases	25th percentile	Median (50th percentile)	75th percentile	Mean*
Asset misappropriation	1,309	$22,000	$120,000	$500,000	$1,116,000
Noncash	246	$10,000	$66,000	$250,000	$537,000
Billing	207	$25,000	$100,000	$448,000	$624,000
Cash on hand	143	$10,000	$50,000	$200,000	$357,000
Skimming	130	$10,000	$43,000	$200,000	$205,000
Expense reimbursements	127	$5,000	$50,000	$150,000	$251,000
Check and payment tampering	109	$26,000	$155,000	$510,000	$787,000
Cash larceny	95	$10,000	$50,000	$300,000	$561,000
Payroll	74	$10,000	$50,000	$250,000	$383,000
Register disbursements	21	$4,000	$50,000	$94,000	$95,000
Corruption	662	$50,000	$200,000	$1,000,000	$2,738,000
Financial statement fraud	61	$100,000	$766,000	$4,815,000	$6,045,000

Mean amounts were calculated using loss data that was winsorized at 5% (i.e., assigned all cases in the top 2.5% and bottom 2.5% the same value as the 97.5th percentile and 2.5th percentile, respectively).

Figure 1. Fraud cases
Source: ACFE survey (2024)

Fraudulent financial statements remain a critical issue because, despite having a relatively lower number of cases compared to other types of fraud, the financial losses incurred are generally much higher. According to ACFE data in 2024 (Figure 1), fraudulent financial statements had the fewest reported cases when compared with asset misappropriation and corruption, yet they generated the largest median loss. This situation illustrates that falsifying financial statements can severely damage a business and undermine the confidence of creditors, investors, and the general public in the reliability and accuracy of reported financial information. Furthermore, the ACFE survey (2024) indicates that 19% of fraud incidents were the result of management overriding internal controls, while 39% were due to deficiencies or lack of effective internal controls.

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The term "corporate governance" describes a collection of procedures, customs, laws, guidelines, and organizations that affect the management, control, and direction of a business. Relationships between stakeholders and management goals are also included in corporate governance (Pratama *et al.,* 2020). A key factor in preventing financial statement fraud is corporate governance. Weak corporate governance may trigger fraud, whereas sound governance can provide benefits as a preventive mechanism against financial statement fraud (Ndruru & Hutapea, 2022). Jensen & Meckling (1976) state that "the conflict between managers and shareholders arises because managers do not bear the full wealth effects of their decisions"; therefore, a control system is needed to limit opportunistic managerial behavior. In this context, corporate governance functions as a systematic aggregation of instruments that guide and supervise an entity, assuring clarity and responsibility in its operations. Marlinda and Sari (2024) contend that robust corporate governance frameworks incorporate a number of fundamental constituents, including boards of commissioners, audit committees, and both institutional and managerial shareholdings. Within the empirical boundary of this study, the dominant construct of corporate governance is delineated through two separate dimensions: independence of the board of commissioners and institutional ownership.

To explain the danger of financial statement fraud in the banking industry, this study employs institutional ownership and board independence as stand-ins for corporate governance (Hasan *et al.,* 2022). Institutional ownership reflects external monitoring, whereas board independence represents internal monitoring; together, they create a dual monitoring system within corporate governance (Ebaid, 2023). Because institutional investors, such as banks, pension funds, and investment firms, typically have the resources, capacity, and incentives necessary to properly oversee managerial decisions, institutional ownership acts as an external monitoring mechanism (Kurniawan *et al.*, 2020). Through voting rights, continuous performance monitoring, and pressure from the capital market, institutional investors can help restrict managerial opportunism and reduce the possibility of financial statement manipulation (Maznorbalia *et al.,* 2023). Meanwhile, board independence functions as an internal monitoring mechanism because independent commissioners are part of the company's internal governance structure and are responsible for objectively supervising the board of directors (Nugroho & Diyanty, 2022). To guarantee that financial statements are presented openly, responsibly, and in accordance with relevant accounting rules, this role also entails a check-and-balance function (Sun, 2023). In the banking sector, this function becomes especially important because banks operate with high complexity and face substantial information asymmetry between management and shareholders (Kristianto & Andayani, 2025).

Institutional ownership is the proportion of a company's shares that are held by institutions (Marlinda & Sari, 2024). According to Kurniawan *et al.* (2020), institutional ownership can serve as an external monitoring mechanism over management. When company shares are owned by external parties, these parties are expected to exercise control and supervision over the assets they own, thereby limiting managerial discretion. In this context, Syafitri *et al.* (2021) theorize that institutional investors strengthen internal governance, establishing a second layer of oversight that complements the existing board of commissioners and the audit committee. Typically, this category of institutional shareholding exhibits greater structural stability than retail ownership, although its impact may be significant when a major institution sells its shares. Excessively high institutional ownership may also create risk, as a sell-off by a large institution can sharply reduce share prices (Agustina & Falikhatun, 2025). Kusumawardhani (2024) found that institutional ownership affects financial statement fraud. Financial statement fraud is influenced by institutional ownership, according to Widowati & Oktoriza (2021). On the other hand, institutional ownership has little bearing on fraudulent financial statements, according to Kurniawan *et al.* (2020).

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In keeping with this external monitoring system, internal monitoring one of which is carried out by the board of commissioners, also strengthens corporate governance. According to Financial Services Authority Regulation No. 33/POJK.04/2014, one of the Board of Commissioners' primary responsibilities is to direct managers and guarantee the high standards of governance. Syafitri *et al.* (2021) argue that this managerial duty requires that the Board monitors the organization's compliance with the Articles of Association, for both comprehensive and detailed activities. A board commissioner who has no connection to the company, its management, shareholders, or other commissioners is known as an independent commissioner (Herlambang & Nurbaiti, 2023). One fundamental sign of good company governance is commissioners who are appointed independently. Corporate monitoring methods are substantially improved when the audit committee and the entire board of commissioners work together. This assumes that independent supervisors can drive performance, promote transparency of operations, and provide neutral check-and-balance of controls (Rudiwantoro, 2022). The board is also regarded as an instrument for monitoring management integrity (Herizona & Yuliana, 2021). According to Wahfiuddin & Subekti (2023), fraudulent financial statements are positively impacted by the board of commissioners' independence. Board independence has a detrimental impact on fraudulent financial statements, according to Mousavi *et al.* (Mousavi *et al.,* 2022). In the meantime, Rudiwantoro (2022) demonstrated that fraudulent financial statements are unaffected by the Board of Commissioners' independence.

RESEARCH METHOD

This study employs institutional ownership and board independence as the primary proxies for corporate governance in order to investigate the connection between financial statement fraud and corporate governance procedures. In the meantime, the probability of financial statement fraud is estimated by measuring the dependent variable using the F-Score model. The F-Score was chosen because it provides a thorough method for identifying possible financial statement fraud by concurrently integrating accrual quality and financial performance metrics (Dechow *et al.,* 2011). Compared with other models, such as the Beneish M-Score, which mainly focuses on accrual-based manipulation, the F-Score is considered more relevant because it also captures performance pressure and the company's fundamental financial condition (Beneish, 1999). In addition, the F-Score is more stable because it combines several financial indicators, thereby improving fraud detection accuracy compared with a single-indicator approach (Aghghaleh *et al.,* 2016). Therefore, the F-Score is considered the most appropriate model for this study because it can represent fraudulent financial statement risk more comprehensively.

The empirical evidence is based on a sample of 47 banking firms listed on the IDX for the years 2023-2024. After applying stringent inclusion criteria for the completeness of financial and disclosure records, the dataset shrank to 45 banks, resulting in 90 distinct firm-year entries. The required information was obtained from secondary data, which are individual banks' websites and the IDX official website. In this study, SPSS 23 was utilized to perform analytical procedures, including multiple linear regression, assessment of classical assumptions, hypothesis testing, and the calculation of the coefficient of determination, all aimed at evaluating the extent to which variance is explained.

Institutional Ownership

The percentage of firm shares held by institutional investors—whether from the public or private sector, such as pension funds, insurance companies, and investment institutions, is referred to as institutional ownership (Kurniawan *et al.,* 2020). This ownership structure is considered an important mechanism in corporate governance because it can serve as an external monitoring tool over

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management activities. Because institutional investors have the capacity, means, and motivation to keep an eye on management actions and policies, institutional ownership should theoretically lessen agency conflicts (Priswita & Taqwa, 2019). International literature also shows that institutional investors play an active role in corporate governance by monitoring and exerting pressure on management, thereby improving financial reporting quality and reducing the risk of irregularities (Eliwa *et al.,* 2025). Through voting rights in the General Meeting of Shareholders, institutional investors can influence the direction of corporate policies and encourage greater transparency in financial reporting (Syafitri *et al.,* 2021). A high level of institutional ownership is also often interpreted as a positive signal of the company's prospects and performance. This is because institutional investors generally conduct more rigorous evaluations before investing, so their presence can strengthen management discipline in preparing financial statements (Kurniawan *et al.,* 2020). This variable is measured mathematically following the procedures outlined by Kusumawardhani (2024):

$$Institutional\ Ownership\ = \frac{\sum Institutional\ Ownership}{\sum Shares\ Outstanding} x\ 100$$

Independence of the Board of Commissioners

The degree to which members of the board of commissioners are independent from management, controlling shareholders, and other internal company stakeholders is a crucial aspect of corporate governance (Otoritas Jasa Keuangan, 2014). Independent commissioners are members of the board of commissioners who have no connection to the corporation, other commissioners, shareholders, or executive parties, according to Herlambang and Nurbaiti (2023). To put it another way, commissioners who are truly independent should not be connected to the board of directors, shareholders, or other board members. In theory, having independent commissioners helps reduce conflicts of interest between management and shareholders and enhances the company's check-and-balance system (Hasan *et al.,* 2022). Board independence also plays a role in improving monitoring effectiveness and reducing the risk of financial statement fraud. Empirically, Hasan *et al.* (2022) show that board independence contributes to better financial reporting quality because independent boards perform a monitoring function that helps reduce agency conflicts. In addition, Fitrasari (2023) found that board independence helps mitigate earnings management practices, while Ebaid (2023) proved that the likelihood of financial statement fraud has a negative and significant relationship with board independence. However, the effectiveness of board independence may also depend on other factors, such as board members' competence, their involvement in decision-making, and the intensity of supervision carried out. In some cases, independent commissioners may exist only as a formality, making them less effective in reducing fraud risk, especially when corporate governance mechanisms are applied merely symbolically and are not implemented substantively (A. Girau *et al.,* 2022). This study's formula is as follows (Herlambang & Nurbaiti, 2023):

$$Independence\ of\ the\ Board\ of\ Commissioners\ = \frac{\sum Number\ of\ Independent\ Commissioners}{\sum Board\ of\ Commissioners} x\ 100$$

Fraudulent Financial Statement

Financial statements serve as a communication medium between a company's business activities and its stakeholders (Guritno *et al.,* 2020). However, financial statements may become misleading when management intentionally presents false or incomplete information. Fraudulent financial statements refer to unethical actions carried out deliberately by individuals or groups within

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a company through misstatements, omissions, or manipulation of financial information that can mislead users of financial statements, particularly investors and creditors (Rezaee & Riley, 2010). In line with SAS No. 99, financial statement fraud may involve falsifying accounting records, omitting material information, or misapplying generally accepted accounting principles in financial reporting (Ndruru & Hutapea, 2022). Such fraud is commonly committed to conceal the company's actual financial condition and present a better performance image to investors (Wahfiuddin & Subekti, 2023). The weak implementation of corporate governance mechanisms may further increase the opportunity for material misstatement and fraudulent reporting practices (Kardhianti & Srimindarti, 2022). The ACFE fraud classification lists asset misappropriation, fake financial statements, and corruption as examples of occupational fraud. Among these categories, fraudulent financial statements are particularly relevant to this study because they directly relate to the intentional misrepresentation or omission of financial information intended to deceive financial statement users (Rahmatika, 2020).

This study employs the F-Score Model to evaluate the likelihood of manipulation in financial reporting. The creation of a Fraud Score hinges on a combination of financial performance indicators and the measurement of accruals quality. Following Dechow *et al.* (2011), the formulation of the F-Score is as follows:

$$F - Score \ = Acrual\ Quality + Financial\ Performance$$

Accruals can be described as balance sheet movements that do not include either cash or equity. In this study, the RSST Accrual method is used to define accrual quality. The RSST Accrual method separates structural dependencies into three specific categories:

$$Acrual\ Quality = \frac{WC + NCO + FIN}{ATS}$$

Calculation:

$$WC = Current\ Assets - Current\ Liabilities$$
$$NCO = (TA - CA - Inv\ Adv) - (TL - CL - LTD)$$
$$FIN \ = (Total\ Investment - Total\ Liabilities)$$
$$ATS \ = \frac{Begining\ Total\ Asset + End\ Total\ Assets}{2}$$

To evaluate this dimension of financial performance, the framework analyzes the volatility of key accounting elements, including inventory, accounts receivable, cash-based revenue, and earnings before interest and taxes (EBIT). The following illustrates the formulation for the measurement of this dimension:

$$Financial\ Performance = CR - CI - CCS - CE$$

Calculation:

$$CR = \frac{\Delta Receivables}{Average\ Total\ Assets}$$
$$CI = \frac{\Delta Inventories}{Average\ Total\ Assets}$$
$$CCS = \frac{\Delta Sales}{Sales_t} - \frac{\Delta receivables}{receivable_t}$$

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$$CE = \frac{Earnings\ (t)}{ATS\ (t)} - \frac{Earnings\ (t-1)}{ATS\ (t-1)}$$

WC : *Working Capital*
NCO : *Non-Current Operating Accrual*
TA : *Total Assets*
CA : *Current Assets*
Inv Adv : *Investment and Advances*
TL : *Total Liabilities*
CL : *Current Liabilities*
LTD : *Long term Debt*
FIN : *Financial Accrual*
ATS : *Average Total Assets*
CR : *Change in Receivable*
CI : *Change in Inventories*
CCS : *Change in Cash Sales*
CE : *Change in Earnings*

Based on Dechow *et al.* (2011), a company is not classified as involved in Fraudulent Financial Statement if its F-Score is negative or less than 1. Conversely, if the F-Score exceeds 1, the company is considered to have engaged in Fraudulent Financial Statement.

RESULTS AND DISCUSSION

Normality Test

Presented in Table 1 are the outcomes of the normality assessment performed on the dataset used in this research.

Table 1. Normality test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		90
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,72709345
Most Extreme Differences	Absolute	,085
	Positive	,085
	Negative	-,059
Test Statistic		,085
Asymp. Sig. (2-tailed)		,133[c]

Source: Processed by the researchers (2026)

As presented in Table 1, the Kolmogorov-Smirnov test produced an asymptotic significance (2-tailed) value of 0.133. The residuals are regularly distributed because this value is higher than 0.05. Consequently, the normality assumption is satisfied by the regression model.

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Multicollinearity Test

Presented in Table 2 are the findings of the multicollinearity test performed on the dataset of this study.

Table 2. Multicollinearity test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1,547	,176		8,788	,000		
	Institutional Ownership	-,582	,525	-,114	-1,109	,271	1,000	1,000
	Independence of the Board of Commissioners	-,737	,280	-,270	-2,634	,010	1,000	1,000

Source: Processed by the researchers (2026)

According to the collinearity diagnostics, both Institutional Ownership and the Independence of the Board of Commissioners showed a variance inflation factor (VIF) of 1.000 and a tolerance level of 1.000. Since the results expressed perfect agreement with the thresholds (VIF < 10, tolerance > 0.10), the empirical model confirmed the absence of multicollinearity. Hence, the independent variables did not exhibit undesirable linear relationships.

Heteroscedasticity Test

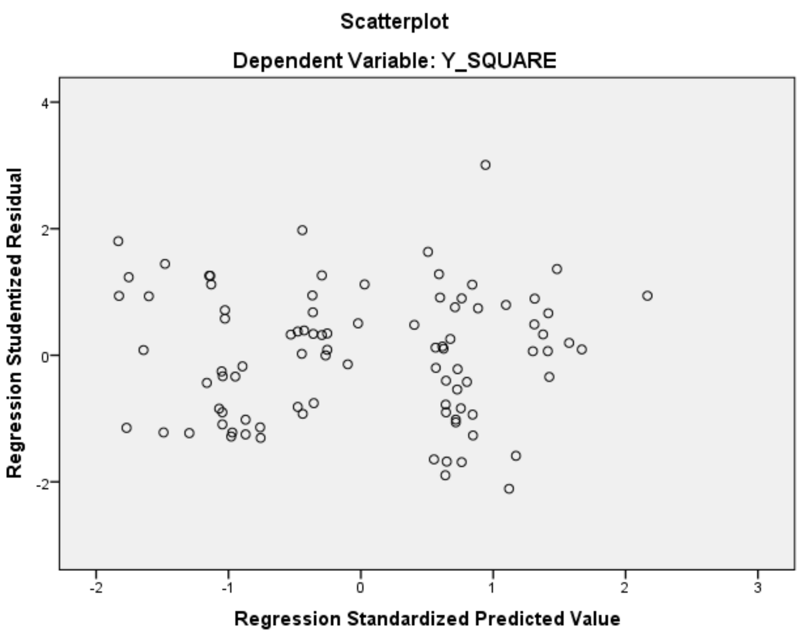

Figure 2. Heteroscedasticity scatterplot
Source: Processed by the researchers (2026)

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Figure 2 displays the results of the heteroskedasticity test conducted on the research dataset. The scatterplot diagnostic for heteroscedasticity shows that the residual points are randomly scattered with no patterns among the points above and below the zero line. Because of this scatter, the regression model assumes homoscedasticity, as there is no sign of heteroscedasticity.

Multiple Linear Regression Analysis

Table 3 shows the diagnostic results from the multiple linear regression analysis.

Table 3. Multiple linear regression analysis

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	1,547	,176		8,788	,000
	Institutional Ownership	-,582	,525	-,114	-1,109	,271
	Independence of the Board of Commissioners	-,737	,280	-,270	-2,634	,010

Source: Processed by the researcher (2026)

The multiple linear regression analysis yields the following equation:

$$Y = 1,547 - 0,582X1.1 - 0,737X1.2$$

The statistical outputs of the multiple linear regression analysis indicate the following insights regarding the predictors:

a. The model shows a constant value of 1.547. This suggests that the absence of institutional shareholding and independent commissioners yields a baseline risk score for financial statement fraud at 1.547.

b. The F-Score indicates a negative correlation between institutional ownership and falsified financial statements, with a regression value of -0.582. Higher institutional ownership is often linked to a decreased risk of financial statement fraud, according to this negative coefficient. However, the significance value of 0.271, which is higher than 0.05, indicates that the impact in this study is not statistically significant. This result is theoretically consistent with Jensen and Meckling's Agency Theory (1976), which argues that institutional ownership might serve as an external monitoring mechanism to lessen agency conflicts between shareholders and management. Because they have voting rights and performance supervision, institutional investors often have more monitoring power. However, their monitoring effectiveness seems to be limited in the context of this study, perhaps because institutional investors are not always actively involved in supervision or because their control function may become less independent due to long-term relationships with management (Shleifer & Vishny, 1997).

c. The F-Score is negatively impacted by board independence, as seen by the regression coefficient of -0.737. With a significance value of 0.010 below 0.05, this negative and significant impact implies that a lower level of financial statement fraud in banking organizations is linked to a larger degree of board independence. The Agency Theory of Fama and Jensen (1983), which stresses that independent commissioners work as an internal monitoring mechanism through their check-and-

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balance function over management decisions, is theoretically supported by this conclusion. Financial reporting transparency can be strengthened, earnings management techniques and financial statement fraud can be decreased, and the impartiality of monitoring can be improved by independent commissioners who are not connected to management or controlling shareholders.

Partial Effect Test (t-test)

Table 4 summarizes the statistical outputs for the various individual partial effect tests.

Table 4. Partial effect test (t-test)

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	1,547	,176		8,788	,000
	Institutional Ownership	-,582	,525	-,114	-1,109	,271
	Independence of the Board of Commissioners	-,737	,280	-,270	-2,634	,010

Source: Processed by the researcher (2026)

Aligned with the data characteristics described in Table 4, each parameter was assessed without directional bias (two-tailed test). At the 5% alpha level, with 1.987 as the critical value for the t-table, the results for partial significance are provided in the following:

$$df = n - k - l$$
$$= 90 - 2 - 1$$
$$\alpha = 0{,}05 \quad df = 7 \quad t = 1{,}987$$

Testing of Ha1

The Institutional Ownership construct (X1.1) analysis shows a t-statistic of -1.109 and a p-value of 0.271 for the first alternative hypothesis (Ha1). The absolute t-value is below the crucial value of 1.987, and the probability is higher than the 0.05 alpha level. As a result, the null hypothesis (H0) is approved. Ha1 is not supported by the analysis. In light of this, we draw the conclusion that the financial statement manipulation is not substantially supported by the institutional equity blockholders.

According to the study's findings, falsified financial statements are negatively but marginally impacted by institutional ownership. This result implies that while institutional owners serve as external monitors in theory, their existence does not always lower the probability of financial statement fraud in banking firms. This condition may occur because institutional investors are not always actively involved in supervising managerial decisions, particularly when their ownership role is more passive or investment-oriented. Therefore, the monitoring function of institutional ownership may be limited if it is not followed by active participation in corporate governance practices.

This outcome is in line with the findings of Kurniawan *et al.* (Kurniawan *et al.,* 2020), who discovered that fake financial statements are unaffected by institutional ownership. It is also consistent with the findings of Solikhah and Cahyaningtyas (2024), who said that financial statement fraud is not much impacted by institutional ownership. This conclusion, however, is at odds with those of Kusumawardhani (2024) and Widowati and Oktoriza (2021), who discovered that financial statement fraud is influenced by institutional ownership. These conflicting results suggest that the degree of investor participation, ownership concentration, and the particular governance environment of the business may all affect how well institutional ownership functions as an external monitoring mechanism.

Testing of Ha2

The second alternative hypothesis (Ha2) has a t-statistic of -2.634 and a p-value of 0.010 in the Independence of the Board of Commissioners test (X1.2). The probability value is below the 0.05 alpha threshold, but the absolute t-value is above the critical value of 1.987. Consequently, the null hypothesis (H0) is rejected while Ha2 is accepted. This result shows that the independence of the board of commissioners has a major detrimental effect on fabricated financial accounts. It demonstrates that a higher level of board independence reduces the likelihood of financial statement fraud for banking businesses listed on the IDX in 2023–2024.

Fraudulent financial statements are negatively and significantly impacted by board independence. This finding suggests that the probability of financial statement fraud in banking institutions can be decreased by increasing the percentage of independent commissioners. It is expected of independent commissioners to reduce managerial opportunism in the financial reporting process, enhance the check-and-balance system, and offer impartial monitoring. This result is consistent with Agency Theory, which states that efficient monitoring systems can lessen agency conflicts between shareholders and management (Jensen & Meckling, 1976). The outcome is also in line with the findings of Hasan *et al.* (2022), who discovered that board independence improves the quality of financial reporting through its monitoring function. Furthermore, Ebaid (2023) showed that board independence has a negative and substantial link with the possibility of financial statement fraud, whereas Fitrasari (2023) demonstrated that board independence helps minimize earnings management methods. This demonstrates that, especially in the banking industry, which is marked by high operational complexity and information asymmetry, internal control through independent commissioners has a significant role in lowering fraud risk.

Simultaneous Effect Test (F-test)

Table 5 displays the findings of the simultaneous effect test.

Table 5. Simultaneous effect test (F-test)

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4,472	2	2,236	4,134	,019[b]
	Residual	47,051	87	,541		
	Total	51,523	89			

Source: Processed by the researchers (2026)

The regression's simultaneous F-test confirms that the joint effect of board autonomy and institutional shareholding levels on fraudulent financial reporting is statistically significant. In the ANOVA, an F-value of 4.134 with a significance of 0.019 meets the 0.05 standard of significance.

The outcome is also in line with the findings of Hasan *et al.* (Hasan *et al.,* 2022), who discovered that board independence improves the quality of financial reporting through its monitoring function. Furthermore, Ebaid (2023) showed that board independence has a negative and substantial link with

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the possibility of financial statement fraud, whereas Fitrasari (2023) demonstrated that board independence helps minimize earnings management methods. This demonstrates that, especially in the banking industry, which is marked by high operational complexity and information asymmetry, internal control through independent commissioners has a significant role in lowering fraud risk. This finding bolsters the claim made by Hasan *et al.* (2022) that corporate governance practices are crucial to raising the caliber of financial reporting. It is also consistent with Ebaid's (2023) emphasis on the significance of board attributes in lowering the probability of financial statement fraud. The findings of the partial test, however, indicate that external monitoring through institutional ownership is less important than internal monitoring through board independence. This suggests that because independent commissioners are directly involved in the company's internal monitoring system, they may be more successful in avoiding financial statement fraud in the banking industry.

Coefficient of Determination Test (R2)

Table 6 displays the findings of the coefficient of determination test.

Table 6. Coefficient of determination test (R2)

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,295[a]	,087	,066	,73540	1,645

Source: Processed by the researcher (2026)

The coefficient of determination shows that the Adjusted R Square value is 0.066, meaning that institutional ownership and board independence explain only 6.6% of the variation in fraudulent financial statements, while the remaining 93.4% is explained by other variables outside the model. This relatively low explanatory power indicates that financial statement fraud is a complex phenomenon that cannot be explained only by corporate governance mechanisms. Other factors, such as financial pressure, financial stability, external audit quality, internal control effectiveness, and macroeconomic conditions, may also play important roles in influencing fraudulent financial reporting. Therefore, although this study confirms the relevance of corporate governance in fraud prevention, future studies should include broader fraud-related variables to obtain a more comprehensive explanation of fraudulent financial statement risk in banking companies.

CONCLUSION

During the 2023–2024 observation period, this study investigates the connections between corporate activities and financial statement manipulation by examining commercial banks listed on the Indonesia Stock Exchange (IDX), aiming to reveal how corporate behavior influences the integrity of financial reporting. In particular, this study attempts to evaluate the entire governance structure of the firms by monitoring the two mechanisms of governance, which are the independence of outside directors and the block of shares held by institutions.

This study shows that the ownership of institutions does not have a considerable impact on the exposure of the company to the risk of financial statement fraud. According to agency theory, large blocks of corporate shares are said to function as control mechanisms in order to limit the agency problem. The findings of this study show that these institutional shareholders are still mostly ineffective in controlling the management of these corporations, which probably happens because the supervisors took a hands-off approach to the day-to-day management of the corporations. In contrast, a board of

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independent commissioners reduces the risk of financial statement fraud, and this negative relationship supports the agency theory, as independent directors assume the role of a neutral third party who resolves the issues of executive closeness. Furthermore, the study provides evidence in support of the fraud model's "opportunity" element, whereby a sound internal control structure reduces the risk of fraud substantially.

The results show how institutional shareholding and independent board members affect the tendency toward reporting fraudulent financial statements. However, because of the low determination coefficient, there are other factors, such as financial distress, leverage, profitability, the quality of audits, the size of the firms, and the characteristics of management, that fall outside this model and explain corporate fraud.

The limitations of this study include only employing two Corporate Governance proxies and only focusing on banking issuers listed on the IDX during the years 2023 and 2024. Other studies are therefore warranted to cover more Corporate Governance proxies, such as the audit committee, audit quality, management ownership, CEO duality, leverage, firm size, profitability, sales growth, and to widen the research target and the period of study.

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