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Can boards of directors in large companies effectively prevent fraud?

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ABSTRACT

Purpose: The aim to test the impact of the characteristics of board of directors in reducing and preventing the possibility of financial statement fraud with firm size as variable moderating.
Methodoly/Approach: The technique used purposive sampling method resulting of total 435 data and 87 companies in mining sector for the period 2018 – 2022.
Findings: The result of this study is that firm size do not strengthen the board independence, board remuneration, board financial and industry expertise, and number meeting board of director on fraudulent financial statement. However, firm size strengthens the CEO financial and industry expertise on fraudulent financial statement. Another result is CEO financial and industry expertise, board financial expertise has a negative influence on fraudulent financial statement, but board independence, board remuneration, board industry expertise and board effort do not have influence on fraudulent financial statement.
Practical and Theoretical contribution/Originality: This research is expected to be helpful to the companies regarding the importance of the characteristics of the board of directors whether in large and small companies to prevent and detect fraudulent financial statements.
Research Limitation: This limitation is focused only on mining sector companies, and it only measures the characteristic board of directors' variables.

Keywords: Board of Directors; Expertise; Fraudulent Financial Statement.

INTRODUCTION

Financial statements are an important information used by investors and creditors to make financial decisions, and are one of the way for companies to attract investors and creditors (Rostami & Rezaei, 2022; Tang & Fiorentina, 2021). However, when the company is in bad state, the financial reports will reflect the condition of the company. This will have an impact on the company by losing investors or creditors, so that in order to retain investors or creditors, the company will use all means to hide the condition of the company. Therefore, companies manipulate financial reports to cover up the condition of their company. Manipulation financial reports is an one of fraud act (Priyo Budi Prakoso *et al.*, 2022). Financial statement that have been manipulated can reduce the reliability of financial statements (Rostami & Rezaei, 2022). In addition, it can have a negative impact on other stakeholders including audit committees, creditors, shareholders and also endanger the integrity and objectivity of the external auditor profession (Aminu et al., 2021; Christian, 2022; Muhyi & Suratno, 2021; Syamsudin et al., 2017).

Since the fraud cases committed by Enron and WorldCom, fraud has become an act of concern to the regulators, investors, public, and academics. (Christian *et al.*, 2022). Cases of fraudulent financial statements are not only in abroad, but it also occur in Indonesia. Based on the CNBC News (2023), Mahfud said that there are still many gaps in corruption in mining sector companies. In 2019, the potential losses due to corruption reach IDR 1.6 trillion (CNBC, 2023). Then in 2020, PT Timah Tbk restated its 2018 financial statements. Before restating the financial report, PT Timah's net profit in 2018 rise by 5.76% from last year, causing PT Timah Tbk share price to experience a significant increase. The increase in net profit, because of the unrecorded cost of revenue from sales metal amounted to IDR 640 billion. However, after the restatement of the financial statements, the net profit has decreased. The restatement causes the share prices declined significantly. This can indirectly be considered as manipulation of financial statements, because the financial statements presented are not fair which are detrimental the investors.

The cases described above show that financial statement fraud still exist until now. There is an effective way to prevent and detect fraudulent financial statement, it is by implementing a corporate governance. Corporate governance is system and mechanism in the company that the purpose is to control the company from any risk and balancing the stakeholder (Chandra & Cintya, 2021). However, further efforts are still needed because the implementation of corporate governance may only be aimed at compliance (Mardianto & Tiono, 2019). If the board of directors, which is part of corporate governance, has expertise in their each field and not just for regulatory compliance, then fraudulent financial statements can be prevented. Therefore, it is necessary to have a board of directors who have competence and professionalism. From the things that have been described above, the authors are motivated to conduct a study on the characteristics of the existing board of directors in the company to prevent and detect fraudulent financial statements.

Previous studies have primarily focused on corporate governance mechanisms (Sabrina *et al.*, 2020) and internal controls (Samaie & Nahandi, 2018) in fraud prevention, often neglecting the role of board-specific characteristics in the mining sector. Additionally, Indrati *et al.* (2021) found that the effectiveness of the audit committee is not a significant factor in preventing fraud in financial reporting. However, limited studies examine the moderating role of firm size in influencing the effectiveness of board characteristics in fraud prevention.

The novelty of this study lies in incorporating firm size as a moderating variable to evaluate its impact on board characteristics and financial fraud. This approach provides a nuanced understanding of how firm size influences the effectiveness of board characteristics, which have been underexplored in prior research. For example, firm size, characterized by larger assets and greater resources, can enable companies to attract highly competent directors through competitive remuneration, thereby potentially reducing the risk of fraudulent financial statements.

The objective from this study is to determine whether or not the characteristics of the board of directors have an effect on reducing and preventing the possibility of fraud on financial statement, as well as to determine whether the firm size will make the differences on the characteristic of the board of director. When the differences in the characteristics of the board of directors, it will impact the effectivenes in prevention on fraudulent financial statement. The contribution of this research is to provide benefits for companies so that they can realize the importance of the characteristics of the board of directors whether in large and small companies in order to prevent and detect fraudulent financial statements.

Agency theory can explain how the cause of fraud can occur. Agency theory is a theory that developed by Jensen and Meckling (1976), which states that the relationship arises because of a contract between the principal and the agency where the principal employs the agency to carry out work in the interest of the principal. Based on the assumption of this theory that each individual is more likely to prioritize their own interests so that a conflict of interest arises between the principal and the agency (Supriyanto & Hendri, 2021). The principal is more concerned with profitability while the agency is maximizing the profitability of the company to benefit from the principal, but the principal does not have enough information received from the company because it cannot directly monitor the activities carried out by the agency, resulting in an imbalance of information received by the principal and agency which is called information asymmetry (Yopie & Erika, 2021). This information imbalance create an opportunity for the agency to take an advantage.

Fraud is an act by individual and or organizations that is intentional and conscious of its actions with the aim for personal gain or for securing the company such as obtaining wealth or hide the fact that the company is losing money (Aminu *et al.*, 2021; Christian *et al.*, 2021; Mappadang, 2022; Mardianto & Tiono, 2019). Fraudulent financial statements that are intentionally made incorrectly when presenting financial statements in order to hide the facts about the actual condition of the company (Christian & Resnika, 2022; Tanjaya & Kwarto, 2022). Manipulation of financial reports is a way to attract investor, by manipulating the financial reports, it will turn the report into something that will attract investors. (Kurniawan *et al.*, 2020). Financial statement fraud not only causes damage to the quality, reliability and materiality of financial reports, but also harms and reduces the trust from investors, potential investors and other users of financial statements in financial reports and also endangers the integrity and objectivity of the audit profession. (Larum *et al.*, 2021; Syamsudin *et al.*, 2017; Tanjaya & Kwarto, 2022).

Independent directors are members of the board of directors who are appointed but have never been affiliated with or dealt directly with the organization (Imelda & Adhitama, 2020). Independent directors can prevent financial statement fraud because independent directors act as a counterweight to other affiliated directors and accomodation of stakeholders, both the interests of majority, minority and public shareholders (Supriatna & Ermond, 2019).

According to agency theory by Jensen and Meckling (1976), managers as agents will prioritize their own interests over principals (shareholders). However, the independent director in the company will help monitor the managerial behavior for the shareholder. Result study by Rostami and Rezaei (2022), states that independent director has a negative and influence on fraudulent financial statement. According to Rostami and Rezaei (2022), with the increase of independent directors, the fraudulent financial is less likelihood occur in the companies, because having an independent director can strengthen control within the companies. Xing *et al.* (2022) stated that independen director also have negative and significant because there is a good connections between independent direct and company, this can be neutral in the company. Another result by Lamoreaux *et al.* (2019), states that the role of independent director enhance the firm value and improve the quality of corporate governance so, independent director are negative and significant on fraudulent financial statements. Beasley, (1996) also states that there is a negative relationship with financial statement fraud. However, it differs from the study from Yang *et al.* (2017), found that independent director had no influence in dettering financial fraud, because independent directors does not have a role in affecting the likelihood from fraudulent financial statement. According to A. Girau *et al.* (2022), independent director had no relationship with corporate fraud, because of the insignificant role of the independent director in the company and merely just for the regulation in listing requirements on the IDX. The description above, shows that the hypothesis will be:

H_1: Independent board of directors has a negative and influence on fraudulent financial statements

Remuneration is the provision of salaries, benefits and compensation to the directors and the board of commissioners for providing services to the company (Pratama & Prasetya, 2017). The higher remuneration given to the board of directors, this will suppresed the fraudulent actions (Indiraswari, 2021). According to agency theory by Jensen and Meckling (1976), aligning the interests of agents with those of principals can mitigate opportunistic behaviors, including financial fraud. Adequate board remuneration serves as an incentive for directors to focus on ethical governance and organizational objectives rather than personal gains (Agustina & Mulyani, 2019). According to A. Girau *et al.* (2022), states that the increase in compensation for the director, the incident of fraud will decrease, so the result is director's compensation have a negative and influence on corporate fraud. This is consistent with the results by Agustina and Mulyani (2019), states that increase in remuneration will motivated the management and will reduced management's motivation to commit fraud. However, it differs from result found by Vania Donela (2020). According to Vania Donela (2020), that the amount of compensation given to directors does not depend on the condition of the company, even if the company makes a profit or loss, the amount of remuneration is determined by the management itself, so that the directors' remuneration does not have a relationship with fraudulent financial statements. Based on this description, the hypothesis in this study is:

H_2: Board remuneration has negative and influence on fraudulent financial statements

Another factor that can prevent fraudulent financial statements is according to Rostami and Rezaei (2022), with the increase in CEOs and directors who are experts in finance and industry can reduce financial reporting fraud because they have a better ability to view financial report information and has the ability to solve problems that arise related to industry, so that CEO and board of directors who expertise on financial and industry have a negative relationship to fraudulent financial statements. According to agency theory by Jensen and Meckling (1976) conflicts of interest arise when the principal (shareholders) hires the agent (management), who may prioritize their own interests over those of the principal. This creates the potential for fraudulent activities, especially when there is information asymmetry between management and shareholders. To mitigate such risks, the presence of qualified CEOs and board members with expertise in finance and industry becomes crucial. These individuals are better equipped to interpret complex financial data and operational dynamics, thus reducing the opportunities for fraud (Handoko & Ramadhani, 2017; Sarto & Saggese, 2022).

Both CEOs and board members with financial and industry expertise can enhance governance quality by providing critical oversight, ensuring financial transparency, and identifying potential fraud risks early (Indella & Husaini, 2021). Financially skilled directors are able to critically evaluate financial reports, while those with industry expertise understand the operational challenges and risks specific to the company, which can help in identifying fraudulent activities (Rostami & Rezaei, 2022). However it is different from the results of the study by Indella and Husaini (2021), shows that board expertise in financial and industry have not influence on fraudulent financial reporting because of the BAPEPAM has not explained in detail what must be possessed to be declared as a person who has expertise in finance. Based on these considerations, the hypotheses are as follows::

H_3: CEO's financial expertise has a negative influence on fraudulent financial statements

H_4: CEO's industry expertise has a negative influence on fraudulent financial statements

H_5: Board financial expertise of the board of directors has a negative influence on fraudulent financial statements

H_6: Board industry expertise has a negative and influence on fraudulent financial statements

Another factor is the number of board meetings. According to Rostami and Rezaei (2022), the number of meetings held indicates that the board of directors is aware of the company's activities and is able to monitor the company's operations, so there is a negative relationship between the number of board meetings and fraudulent financial reporting. Agency theory by Jensen and Meckling (1976) supports this by suggesting that more frequent board meetings reduce information asymmetry between management and shareholders, thereby enhancing oversight and reducing the likelihood of fraudulent activities. This is consistent with the findings by Salleh and Othman (2016), which the directors are aware of activities within the company. Erlien Nurliasari and Achmad (2020), also stated that the number meeting of audit committee has a influence on fraudulent financial reporting because the more frequency meetings be held, it shows that the meetings have been running effectively. This is different from the research results from Indella and Husaini (2021), which states that the number of meetings doesn't have influence on the likelihood of fraud on financial reporting, because meetings are held only to comply with regulations set by BAPEPAM. The hypothesis for the seventh will be:

H_7: The number of board of directors meetings has a negative influence on fraudulent financial statements

The scale of the company reflects the size of the company. In terms of differences in the size of income, assets and equity, when the company is on a large scale it will show that the condition of the company is stronger (Damayanty & Putri, 2021). The larger the company, the more complex the operations within the company and the higher risk the company will have to face. Therefore, it needs skilled directors and meetings will be required more often between board of directors to plan and prevent risks for the company (Indrastuti, 2022). According to agency theory by Jensen and Meckling (1976), the complexity in large firms increases information asymmetry, which can lead to higher fraud risk if not effectively managed. Skilled directors and frequent board meetings are essential in larger firms to improve monitoring and align management's interests with those of shareholders, thereby reducing fraudulent behaviors. According to Edi and Yopie (2019), management with the capabilities will make company operation more efficient and can make a decision when in the times of crisis. Small companies may not focus on quality management considering the costs, but this will be different for large companies. Large companies are in the better positioned to recruit skilled and qualified management because of the costs they can afford (Charitou et al., 2017). Also, operation in a larger firm involving more complex information, and likely to be more time consuming, so board meeting is expected to increase as the growth of the firm (Vafeas, 1999). The more expert and skilled director, the higher the remuneration given by the company, and it will also reflect the size of the company, because large companies need expert directors, and they are willing to pay according to their expertise and skills (Abbasi and Malik, 2015; Sugiyanto *et al.*, 2021). Previous studies by Effiezal Aswadi Abdul *et al.* (2018) state that firm size and directors' compensation; whereby larger firms are expected to provide larger remuneration packages for their directors. Study from Merino et *al.* (2020) show a positive and significant result, as the increase in assets and company size, the remuneration given to the company will also increase. Large companies tend to have more than one competent and expert director, to maintain and control the affiliated directors, the company needs an independent director. With the existence of the independent directors, it can balance the other directors (Supriatna & Ermond, 2019). So, the hypothesis are as follows:

H_{8a}: Firm size strengthens the influence independent directors on fraudulent financial statements

H_{8b}: Firm size strengthens the influence of board remuneration on fraudulent financial statements

H_{8c}: Firm size strengthens the influence of CEO's financial expertise on fraudulent financial statements

H_{8d}: Firm size strengthens the influence of CEO's industry expertise on fraudulent financial statements

H_{8e}: Firm size strengthens the influence of board financial expertise on fraudulent financial statements

H_{8f}: Firm size strengthens the influence of board industry expertise on fraudulent financial statements

H_{8g}: Firm size strengthens the influence of the number of meetings of board of directors on fraudulent financial statements

METHOD

The method in this study uses quantitative methods. The type of data is secondary data which obtained from the Indonesia Stock Exchange (IDX) website, company official website and the gurufocus.com website. Gurufocus.com is a trusted official website and has been since 2004 which provides a combination of historical financial data so that it can make it easier for investors to make decisions.

The sample includes mining sector companies listed on the IDX from 2018–2022 that meet the following criteria: (1) complete financial reports available, (2) data on corporate governance accessible, and (3) consistent reporting during the observation period. Using purposive sampling (Agustina & Mulyani, 2019), 87 companies with 435 observations were selected. The minimum sample size was determined using the Rule of Thumb for Regression Analysis, which requires at least 10–15 observations per independent variable. With 7 independent variables in this research, the minimum sample size was calculated as 105 observations. However, due to the availability of complete data, 87 companies were chosen as the final sample, representing a comprehensive dataset for analysis.

The following are the definition and measurement of each variables from this study, as follows:

- Fraudulent financial statements is a report with intentional misrepresentations or omissions of important information, created to deceive users of the financial information (Christian et al., 2021; Kurniawan et al., 2020; Wahyudi et al., 2019). To measure the fraudulent financial statement (FFS) from this study is used beneish m-score to determined the fraudulent financial report, such as if the score below or equal with -0,5, then it assumed the company doesn't have fraudulent financial report and if the score above with 0,5, then it assumed the company have fraudulent financial report (Beneish, 1999).
- Independent directors are members of the board of directors who are appointed but have never been affiliated with or dealt directly with the organization (Imelda & Adhitama, 2020). Measurement for independent director from this study uses the following formula:

$$\text{boardind (\%)} = \frac{number\ of\ non\ executive\ directors}{total\ number\ of\ board\ members}$$

- Remuneration is the provision of salaries, benefits and compensation to the directors and the board of commissioners for providing services to the company (Pratama & Prasetya, 2017). Measurement for board remuneration (boardremu) from this study is natural logarithm of amount of remuneration given to the board of director in that period (Rostami & Rezaei, 2022).
- Measurement for CEO's financial expertise (CEOfinexp) from this study is if the CEO has a bachelor's degree in financial, economics, and accounting then it will be "1" and if the CEO does not have a bachelor's degree in financial, economics, and accounting, then it will be "0".
- The measurement of CEO industry expertise (CEOindexp) in this study is that if the CEO has a bachelor's degree related to his industry, then the it will be "1" and if the CEO does not have a bachelor's degree related to his industry, then it will be "0".
- The measurement of the board financial expertise (boardfinexp) in this study is as follows:

$$\text{Boardfinexp (\%)} = \frac{number\ of\ financial\ expertise\ director}{total\ number\ of\ board\ director}$$

- The measurement of the board industry expertise (boardindexp) in this study is as follows:

$$\text{Boardindexp (\%)} = \frac{\textit{number of industry expertise directors}}{\textit{total number of board director}}$$

- The measurement of the number meeting of board directors (boardeff) in this study is the number of meetings held by the board of directors in one year.
- The firm size (Firmsize) measurement in this study is the natural logarithm of total assets (Handoko & Ramadhani, 2017).

The research employs panel data regression to account for the multi-year nature of the data. The method for data analysis includes descriptive analysis, panel data regression, and moderating regression analysis to test the hypotheses (Vania & Helisa, 2020). Data analysis is conducted using EViews software, which is well-suited for handling panel data and moderating regression models. Regression analysis using in this research with the equation below:

$FFS_{i,t} = \beta 0 + \beta 1Boardind_{i,t} + \beta 2Boardremu_{i,t} + \beta 3CEOfinexp_{i,t} + \beta 4CEOindexp_{i,t} + \beta 5Boardfinexp_{i,t} + \beta 6Boardindexp_{i,t} + \beta 7Boardeff_{i,t} + \gamma i + \mu t + \varepsilon_{i,t}$ ....(1)

To empirically test H8a to H8g, we extend this model by including the interaction terms between the moderators, as follows:

$FFS_{i,t} = \beta 0 + \beta 1Boardind{*}Firmsizei,t + \beta 2Boardremu{*}Firmsizei,t + \beta 3CEOfinexp{*}Firmsizei,t + \beta 4CEOindexp{*}Firmsizei,t + \beta 5Boardfinexp{*}Firmsizei,t + \beta 6Boardindexp{*}Firmsizei,t + \beta 7Boardeff{*}Firmsizei,t + \gamma i + \mu t + \varepsilon i,t$.....................(2)

RESULTS AND DISCUSSION

Based on Table 1, the data from this study is 435 data from 87 companies for the 2018-2022. From the tables, fraudulent financial report in companies is only 4.4% companies that have fraudulent financial statement, while 95.6% companies doesn't have fraudulent financial statements. The maximum remuneration given to board of directors is Rp 751,875,000 and the average remuneration given to board director is 26,672,863,270. For expertise in finance, the average CEO expertise was 61.8%. This shows that almost all CEOs in every company have experience and knowledge about finance and economics. On industry expertise, the CEO was 48.7%. This shows that only half of the CEOs of each company have experience in their industry. The average value of the number meetings of board of directors' meetings is 18 times, which means that each company has fulfilled the requirements set by BAPEPAM, 1 time per month or 12 times a year. The average value of the firm size is 29.2 and the average asset of the company amounted to Rp 16,133,718,954,779.

Based on Table 2, the following is the regression multiple linear model equation as follows:

Model 1

FFS = 0.823468 – 0.645880 *Boardind* – 0.082261 *Boardremu* – 0.72.6549 *CEOfinexp* – 0.799586 *CEOindexp* – 1.091693 *Boardfinexp* – 0.323861 *Boardindexp* – 0.004380 *Boardeff*

Model 2

FFS = 3.702740 + 0.400259 *Boardind*firmsize* + 0.021226 *Boardremu*firmsize* + 0.535713 *CEOfinexp*firmsize* + 0.287510 *CEOindexp*firmsize* + 0.301310 *Boardfinexp*firmsize* + 0.039313 *Boardindexp*firmsize* – 0.001028 *Boardeff*firmsize*

Based on Table 2 above which shows the model 1 F-statistic probability of 0.0000 below 0.05, means that the characteristic board of directors has an influence on the fraudulent financial statements. The coeffiecient determined on table 2 above, shows in the model 1 the adjusted R-squared is 0.325754 or 33%, so it means that the charactheristics board of director can explain about 33% of the dependent variable and the remaining 67% can be explained by other independent variables that are not part of this research model.

Table 1. Descriptive Analysis

Statistic Descriptives				
			Don't have (%)	**Have (%)**
FFS			95.6%	4.4%
CEOfinexp			38.2%	61.8%
CEOindexp			51.3%	48.7%
	Mean	**Maximum**	**Minimum**	**Std. Deviation**
Boardind	7.02%	50.00%	0.00%	11.66%
Boardremu	26,672,863,270	751,875,006,174	328,187,000	54,679,263,215
Boardfinexp	55%	100%	0%	30%
Boardindexp	41%	100%	0%	31%
Boardeff	18.602300	139.000000	3.000000	15.765975
Firmsize	16,133,718,954,779	168,473,546,875,000	132,398,867,747	28,201,109,865,393

Source: Processed data (2023)

Table 2. Result Model FEM 1 and 2

	Model 1		Model 2	
Variable	**Coefficient**	**Prob.**	**Coefficient**	**Prob.**
C	0.823468	0.7260		
Boardind	-0.645880	0.1525		
Boardremu	-0.082261	0.4033		
CEOfinexp	-0.726549	0.0034*		
CEOindexp	-0.799586	0.0015*		
Boardfinexp	-1.091693	0.0363		
Boardindexp	-0.323861	0.5114		
Boardeff	-0.004380	0.5089		
C			3.702740	0.1270
Boardind * Firmsize			0.400259	0.1107
Boardremu * Firmsize			0.021226	0.2274
CEOfinexp * Firmsize			0.535713	0.0142*
CEOindexp * Firmsize			0.287510	0.0176*
Boardfinexp * Firmsize			0.301310	0.3415
Boardindexp * Firmsize			0.039313	0.9044
Boardeff * Firmsize			-0.001028	0.8392
Adjusted R-squared	0.325754		0.423180	
Probability (F-statistic)	0.000000		0.000000	

* Indicates significant.
Source: processed data (2023)

The result on testing the boardind shows that the coefficient is -0.6459 and the value of probability is 0.1525 and it exceeds the value of 0.05, as a result H_1 is not proven. This shows that an independent director cannot prevent financial statements from fraud. An independent director does not directly work under the company, so the information obtained is less than the director who works directly in the companies. Because of that, an independent director cannot prevent the fraudulent financial statement. Instead, the role of an independent director is to provide an objective opinion for the companies based on their experiences. This is consistent with the study from Yang *et al.* (2017) and A. Girau *et al.* (2022), which shows that independent directors do not have an influence on fraudulent financial statements, because the independent directors do not have a role that could lead to fraud and the appoint is merely to meet the requirement in listing on stock exchange.

Testing the board remuneration shows that the coefficient is -0.08226 and the value of probability is 0.4033 which it exceeds the value of 0.05 means that the remuneration given to the board of director are not influence on fraudulent financial statements, as a result H_2 is not proven. Higher compensation given to the directors does not reduce the motivation to commit fraud, but on the other hand, when the company's performance is good, the bonuses given to directors will be higher. It turns out on the contrary, this will motivate the management to commit fraudulent financial statements, because financial statements reflect the performance of a company. This study is in line with the results study by Vania Donela (2020).

Testing the CEO financial expertise and industry expertise, the result of each coefficient are -0.726549 and -0.799586 and the value of probability are 0.0034 and 0.0015, both below the value of 0.05, which shows that CEO expertise in financial and industry have influence and negative on fraudulent financial statements, as a result H_3 and H_4 are proven. The result of testing on board financial expertise shows that the coefficient is -1.0917 and the value of probability is 0.0363 below 0.05. It shows that board financial expertise is negative and influence on fraudulent financial statements, as a result H_5 is proven. CEO and board of directors who have expertise in finance able to read financial reports well because of their knowledge and experience, apart from that, CEO who also have expertise related to industry can clearly know the operational are appropriate for the company, so that fraudulent financial statement can be prevented and detected. According to Sarto and Saggese (2022) that highly qualified CEOs can also monitoring the performance of board of director and top management. This result is consistent with the study from Rostami and Rezaei (2022), Handoko and Ramadhani (2017) and Syifa Hasna Iftinan and Edi Sukarmanto (2022), which stated that the increase in board of directors who are experts in finance can reduce financial reporting fraud because they have a better ability to view financial report information so that financial report information becomes more transparent and has the ability to solve problems that related to the industry.

The result testing of board industry expertise shows that the coefficient is -0.3239 and the probability of significant is 0.5114 above the value of 0.05 means that board of director who have expertise in industry does not have influence on fraudulent financial statement, as a result H_6 are not proven. This are consistent with the research results of Indella and Husaini (2021), which stated that it do not have a influence on fraudulent financial statement because when the criteria of selecting a director's position based on BAPEPAM still had not explained in detail which criteria that must have to be called an expert in their field.

Testing the variable of number meeting board of directors, and result based on table 2 shows the coefficient is -0.00438 and the probability of significant is 0.5089 above the value of 0.05

which mean that board effort does not have influence on fraudulent financial statement, as a result H_7 is not proven. The number of board of directors' meetings cannot detect the possibility of fraudulent in the financial statements. Even though they often hold meetings, when the information obtained at the meeting have been manipulated, the meeting become meaningless. The results of this test are in line with Indella and Husaini (2021), that the number of board of directors meetings cannot detect and prevent the fraudulent financial statement. According to Indella and Husaini (2021), that the number of meetings between the board of directors determined by BAPEPAM is just a regulation that must be implemented every year by the board of directors.

H8a was not confirmed because the results of testing the company size variable on independent directors showed a probability value of 0.1107, which indicates that company size does not strengthen independent directors against financial statement fraud. This finding aligns with Yang *et al.* (2017), who argued that the effectiveness of independent directors in fraud prevention depends on their active engagement and expertise, rather than the size of the company. Similarly, A. Girau *et al.* (2022) suggest that independent directors are often appointed merely to meet regulatory requirements rather than to contribute meaningfully to governance, limiting their capacity to prevent fraud. This shows that financial statement fraud is not influenced by the size of the independent director's company, which means that independent directors are powerless to stop and identify financial statement fraud. One explanation for this result could be the changes in IDX Regulation No. I-A (Indonesia, 2021), which no longer mandates companies to maintain independent directors. Without clear regulatory enforcement, the role of independent directors becomes symbolic rather than functional, reducing their ability to detect or prevent fraudulent activities. Therefore, every company is not obliged to have an independent director position and this position will disappear, so that independent directors cannot prevent fraudulent financial statements.

A probability value of 0.2274 was obtained when the firm size variable was tested in relation to board remuneration. This indicates that firm size does not increase the impact of board remuneration on financial statement fraud, so that H8b is not supported. The results of this study are not in line with Agustina and Mulyani (2019) and A. Girau *et al.* (2022), who argue that higher remuneration discourages management from committing fraud by aligning their interests with shareholders. This study suggests that firm size does not justify the amount of compensation provided to board members. Instead, as Indiraswari (2021) highlights, board remuneration is often influenced by company performance; when performance improves, remuneration increases automatically. However, if the company's performance declines, the reduction in remuneration may pressure management to enhance productivity, which could incentivize fraudulent financial reporting to meet targets and personal gains. This finding aligns with Vania and Helisa (2020), who argue that while high remuneration might increase managerial commitment, it does not always translate into improved fraud prevention. One possible explanation is that in large companies, remuneration policies are standardized and focused on compliance rather than incentivizing fraud monitoring (Effiezal Aswadi Abdul *et al.*, 2018). Moreover, Merino et *al.* (2020) suggest that although large companies can afford higher remuneration, such compensation often serves as a retention tool rather than a governance mechanism, reducing its effectiveness in preventing fraudulent activities.

Testing the firm size variable on CEO financial and industry expertise, the value of probability are 0.0142 and 0.0176, which shows that firm size strengthens the influence of CEO financial expertise on fraudulent financial statements, as a result H_{10} and H_{11} are supported. Large companies tend to have high risks and complex operations, one of the risks is fraud in financial statements. This finding is consistent with Indrastuti (2022), who argues that managing risks and complexities in large companies requires expertise in financial and operational aspects. CEOs with financial expertise are better equipped to analyze and interpret complex financial data, while CEOs with industry expertise have a deeper understanding of the operational challenges specific to their industry, enabling them to detect anomalies and prevent fraud (Sarto & Saggese, 2022). In addition, Charitou et al. (2017) highlight that recruiting skilled personnel, such as CEOs with specialized expertise, involves higher costs, but these investments are necessary for large companies to ensure effective management and fraud prevention. Larger firms also face greater scrutiny from stakeholders, which further incentivizes the recruitment of qualified CEOs to maintain trust and minimize risks. To prevent risks associated with fraud, large companies often improve their quality management systems, ensuring that operational and financial issues are promptly addressed.

The impact of board financial expertise and industry expertise on financial statement fraud is not strengthened by company size, as evidenced by the probability of 0.3415 and 0.9044 for the company size variable on these two factors. Therefore, H12 and H13 are not proven. Even though the company is large, it does not guarantee that its operations will be more efficient when compared to smaller businesses because, as far as the company is concerned, its operations consist of a decentralized network or internal division. The result of Umaru *et al.* (2021), show that the company's size is unable to explain some of the difficulties that employees face when attempting to settle financial transactions.

A probability value of 0.8392 was obtained when testing the company size variable on the number of board of directors meetings. This suggests that company size does not increase the impact of board of directors meetings on financial statement fraud, proving H14 to be rejected. Even though the firm is quite large, it does not rule out the potential that the number of board meetings would increase along with the number of directors, thus the size of the company cannot explain how frequently board meetings are held. The sole purpose of directors' meetings is to meet the number of meetings set by BAPEPAM; therefore, the number of meetings cannot stop the filing of false financial statements (Indella & Husaini, 2021).

CONCLUSION

Based on the results from this study regarding the characteristics of the board of directors on fraudulent financial statements with firm size as a moderating variable, the conclusions are CEO financial and industry expertise, board financial expertise have a negative and influence on fraudulent financial statement, but board independence, board remuneration, board industry expertise and board effort do not have influence on fraudulent financial statement. Another result from this study is that firm size does not strengthen the board independence, board remuneration, board financial and industry expertise, and board effort on fraudulent financial statements. However, firm size strengthens the CEO financial and industry expertise on fraudulent financial statement. This study shows that with the firm size as moderating variable, it means that the firm size can impact the characteristic board of director on fraudulent financial statement.

This study has several limitations. First, the focus on companies in the mining sector restricts the generalizability of the findings to other industries with differing governance structures and operational complexities. Second, the reliance on secondary data limits the ability to explore behavioral dimensions of how board characteristics influence fraud prevention, such as decision-making processes or interpersonal dynamics within governance structures. Third, while this study examines specific board-related variables, such as financial and industry expertise, it does not account for broader governance factors, including cultural or regulatory influences, which may vary across industries or regions. Future research could address these gaps by incorporating qualitative methods or expanding the scope to multiple sectors to provide a more understanding of governance mechanisms in fraud prevention.

Future studies could also explore the role of board commissioners, particularly those with financial expertise, as independent variables. Commissioners who represent shareholders and possess financial acumen may significantly contribute to fraud detection and prevention. For instance, the fraudulent financial reporting case at PT Garuda Indonesia was uncovered when two commissioners identified discrepancies in compliance with PSAK standards, ultimately resulting in the restatement of the company's financial reports. Including commissioners' characteristics in future research could offer additional insights into governance practices and their effectiveness in mitigating financial misreporting.

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