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Applicability audit committee on detecting financial statement fraud using diamond theory

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ABSTRACT

Purpose: This study investigates the application of fraud diamond theory in the detection of financial statement fraud, utilizing financial targets, industry characteristics, auditor changes, and director changes as independent variables.

Methodology/approach: This research focusing on healthcare companies listed on the Indonesia Stock Exchange (IDX) from 2016 until 2023, the study analyzes data from 32 firms, resulting in 185 analytical units. Employing panel data regression analysis through Eviews 12.

Findings: The findings reveal that only financial targets show a positive and significant influence on financial statement fraud. In contrast, the other variables—industry characteristics, auditor changes, and director changes—show no significant impact. Additionally, while the audit committee moderates the relationship between industry characteristics and financial statement fraud, it does not influence the relationships involving financial targets, auditor changes, or director changes.

Practical and Theoretical contribution/Originality: The novelty of this research is using the audit committee as a moderating variable to minimize the occurrence of financial statement fraud.

Research Limitation: Future research is expected to use new theories, other proxies, and use different sector samples because this research is only limited to healthcare companies.

KEYWORDS: Audit Committee; Financial Statement Fraud; Fraud Diamond.

INTRODUCTION

The financial report serves as a tool for corporate accountability, providing stakeholders with a clear description and communication of the company's performance over a specified period (Kayoi, 2019). In this case, the quality of financial reports must be transparent, complete, relevant, easy to understand, and not contain fraud elements when published to provide trust for anyone who need this information, which is the basis for decision-making (Biduri & Tjahjadi, 2024). Fraudulent practices in the preparation of financial statements can occur either intentionally or due to negligence, as the financial statements are not presented by accounting principles. The negligence or intent of the company's management for certain purposes that mislead the users of the financial statements is carried out for significant financial interests of the company or to ensure that the company's shares remain attractive to investors, thus influencing the decisions of interested parties (Fitriana et al., 2021). According to Statement on Auditing Standards 99, financial statement fraud is the intentional misstatement or omission of disclosures in financial statements designed to deceive users of financial statements (AICPA, 2002). This can be caused by differences in interests between the two parties in a contract, namely management as an agent and shareholders as a principal as explained in agency theory according to Jensen & Meckling (1976). This theory highlights the problems that arise due to information asymmetry and conflicts of interest, where the agent has more information about the company's operations and conditions than the principal. Thus, this makes it easier for the agent to hide some information that is unknown to the principal such as manipulating financial statements to make them look better for personal interests or to achieve certain goals and meet performance targets, increase stock prices, or meet requirements for obtaining loans from external parties. Financial statement fraud has significantly affected market participants including creditors, investors, employees, and pensioners (Zainudin & Hashim, 2016).

According to a survey conducted by ACFE (2024) published in “Occupational Fraud 2024: A Report to The Nations” conducted in 138 countries and territories with 1,921 cases reaching a loss of \$3.1 billion or an average loss per case reaching \$1,662,000, financial statement fraud is the minor common type of fraud but has high-cost impact. Although it is lower in frequency at 5% but causes the largest median loss of \$766,000 per case set side by side to other types of fraud such as asset misappropriation or corruption, its impact is much greater and can result in significant financial losses to the company and other stakeholders. Although it receives little attention, if not prevented it has a serious and major impact on the world economy (Abdullah & Said, 2019). Another result is that businesses are in danger of unprincipled and dishonest practices (Wijerathna & Perera, 2020). According to the survey, the level of fraud cases in the Asia Pacific Region reached 183 cases or 11% of all fraud cases in the world with an average loss of \$200,000. In Indonesia, fraud cases amounted to 25 cases, which when compared to other countries can be said to be high, namely in third place. According to ACFE Indonesia (2019), the percentage of financial statement fraud causes a loss of 9% which can cause a loss value below IDR 10 million by 67,4% and a loss value above IDR 10 billion by 5%. So, it can be said that there are still many economic crimes originating from financial statement fraud in Indonesia that have not been revealed. The number of fraudulent and suspicious financial activities continues to increase (PWC, 2022). This requires special awareness as each case is a disaster for investors (Naldo & Widuri, 2023). Globally, financial statement fraud is the most material branch of fraud so it is expected that there is a need to detect factors that can cause financial statement fraud. Financial statement fraud can have significant negative result for companies and stakeholders, as well as public trust in capital markets. In the Enron case, one of the techniques used was speculation on the market value of unstable assets, which resulted in an unreasonable increase in income in the financial statements so that the financial statements looked better than they were. Major financial scandals caused by financial statement manipulation not only shake public confidence in the companies concerned but also have a far-reaching impact on market stability and the integrity of the industry as a whole (Beasley et al., 2010).

The financial statement fraud case in Indonesia involved PT Indofarma Tbk and its subsidiary, PT Indofarma Global Medika (IGM), which caused state losses estimated at IDR 371,8 billion during the period 2020-2023. The fraud included online loans and the use of tax refunds for outside interests, fictitious sale and purchase transactions in the FMCG business unit, as well as cooperation in the procurement of medical devices without feasibility studies. Other modes involved mortgaging deposits, using company credit cards for personal use, window dressing on financial statements, and post-service insurance payments exceeding the provisions. In addition, PT Kimia Farma Tbk recorded a loss of IDR 1,48 trillion in 2023, an increase from the previous loss of IDR 190,47 billion, due to an increase in cost of goods sold and operating expenses. Kimia Farma's subsidiary, PT Kimia Farma Apotek, allegedly inflated sales data and the company built too many factories that did not meet business needs, which led to a decrease in total assets, liabilities, and equity.

Companies that implement good corporate governance should not be motivated to commit financial statement fraud, because financial statements are used by external parties. To avoid financial statement fraud early, it is necessary to know what causes a company to commit financial statement fraud. Detection of financial statement fraud can be done using various previous fraud development theories. This study uses the diamond theory proposed by Wolfe & Hermanson (2004) which consists of four components.

The difference between this study and the previous one lies in the causal factors used, where this study uses diamond theory by adding moderating variables to see whether it can strengthen or weaken the relationship between fraud diamond theory and the occurrence of financial statement fraud. Previous research related to the factors that cause financial statement fraud using diamond theory has been carried out, but still shows inconsistent results. The financial target variable conducted by (Ratmono et al., 2020; Rengganis et al., 2019; Wicaksono & Suryandari, 2021) shows that financial targets have a significant positive effect on financial statement fraud. However, in contrast to the results of research conducted by (Apriliana & Agustina, 2017; Rengganis et al., 2019; Yendrawati et al., 2019) shows that financial targets have no effect on financial statement fraud. Research nature of industry shows a positive effect in research conducted by (Arfiyadi & Anisyukurillah, 2016; Khamainy et al., 2022; Yendrawati et al., 2019) while in research (Setyowati & Muniroh, 2024; Situngkir & Triyanto, 2020) nature of industry has no effect on financial statement fraud. In research (Lastanti, 2020; Noble, 2019) shows that auditor changes have a positive effect on financial statement fraud. Meanwhile, auditor changes have no effect on financial statement fraud in research (Apriliana & Agustina, 2017; Yendrawati et al., 2019). In the variable director changes in research (Fitriana et al., 2021; Hidayah & Devi Saptarini, 2019; Sari et al., 2022) have a positive effect on financial statement fraud. These results are different from research conducted by (Rengganis et al., 2019; Syahria, 2019).

Novelty research in this study is to add the audit committee variable as a moderating variable. In an effort to reduce fraudulent acts committed by the company, it is necessary to improve good corporate governance and internal control. The audit committee will be measured by the number of meetings of audit committee members in one period. In accordance with the research of Agyei-Mensah & Yeboah (2019) that the audit committee has a negative effect on financial statement fraud. This means that the audit committee can oversee management activities and maintain quality financial reporting. This shows that the audit committee can be used to minimize the occurrence of financial statement fraud.

This study uses the healthcare sector for the period 2016-2023 to test the correlation between fraud diamond theory on financial statement fraud. The reason for selecting a sample of the healthcare sector is that the fourth industry is the most vulnerable to fraud according to ACFE (2024), Indonesia has also reached the third highest number of fraud cases in Asia-Pacific, this is supported by the numerous instances of financial statement fraud in companies in Indonesia as previously discussed.

The purpose of this study is to identify and further statistically analyze how the role of the audit committee in moderating the influence of the four components of the fraud diamond theory on financial statement fraud in healthcare sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2016-2023.

Agency theory was proposed by Jensen & Meckling (1976) which explains the relationship between the principal and the agent. In this relationship, contract exists in which the principal grants the agent authority to manage the company. However, the principal cannot control all activities in management carried out by the agent. This theory highlights agency conflicts that arise due to disagreement in interests between agents and principals. The emergence of agency conflicts due to differences in interests where the agent wants personal welfare to get a large profit on their performance, while the principal focuses on how to improve financial performance, namely the results of high investment. This is called information asymmetry, a key concept in agency theory that describes the condition where the agent has more information about the company's daily operations than the principal. The existence of information asymmetry provides a gap for management to hide information that is unknown to the principal so that management with the information it has can deceive the principal through financial statement fraud. Conditions like this will cause problems, namely moral hazard which occurs when management changes its behavior so that it causes great risk to shareholders and adverse selection where conditions occur when management knows the level of risk better than shareholders.

Fraud is a major problem that occurs in many companies. To understand the triggering factors, it has been widely done by Cressey (1953) which explains three main elements, namely incentive, opportunity, and rationalization. However, the fraud triangle is considered incomplete because it does not consider the personal characteristics of the perpetrator. Therefore, a new element was proposed by Wolfe & Hermanson (2004) in their article entitled "The Fraud Diamond: Considering the Four Elements of Fraud" as a form of development of the previous theory. The new element used as a development is capability. The capability element represents the abilities and personal traits of a person who has the potential to take advantage of opportunities to commit fraud. Capability can generally be assessed objectively compared to other variables that are measured. Capability is an important element of a person's internal support for fraud when compared to other elements in existing theories. Capability is the key to whether an opportunity can be executed into reality, especially in major cases. So the explanation of the four elements of the fraud diamond theory is that pressure refers to the pressure or motivation that encourages someone to commit fraud, opportunity is a situation that encourages someone to commit fraud, usually due to weaknesses in internal control or a weak supervisory system, rationalization is a justification made by someone to cover up his fraudulent actions, capability includes skills, positions, and personal characteristics that allow someone to commit fraud without being detected.

Financial statement fraud is one part of the fraud tree which is defined by Statement of Auditing Standards 99 as an intentional misstatement or omission of disclosures in financial statements designed to deceive users of financial statements (AICPA, 2002). According to ACFE (2024) financial statement fraud occurs when an employee deliberately misrepresents or omits significant information in the organization's financial reports. According to Albrecht et al (2015) financial statement fraud occurs when corporate executives engage in fraudulent activities on behalf of the company to make the financial reports appear more favorable than they truly are. It involves deliberately misrepresenting or misclassifying items in the financial statements with the intent to deceive users, leading them to make different decisions (Kaituko et al., 2023). This intentional omission is important so that it can affect the decisions made by interested parties.

Management as the party responsible for the company's operations is required to achieve a level of performance that can encourage management to take advantage of information asymmetry in agency relationships. According to SAS No. 99, financial targets describe conditions where managers are under great pressure to achieve predetermined financial targets including the desire to get incentives from sales and profits. When associated with agency theory, when companies set high or difficult-to-achieve financial targets Yusrianti et al. (2020), management as agents feel increased pressure to meet the expectations of shareholders as principals. This pressure can encourage management to take manipulative actions against financial statements to show that targets have been achieved. If the targeted sales and profits are large, the incentives obtained by management will also be large, making it possible to commit financial statement fraud (Achmad & Pamungkas, 2019). The results of research (Bader et al., 2024; Fathmaningrum & Anggarani, 2021; Noble, 2019) show that financial targets have a positive effect on financial statement fraud.

H_1 : Financial targets have a positive effect on financial statement fraud

Nature of industry is the ideal condition of a company in an industry that can affect the state of the company. One of the loopholes that is often used to manipulate financial statements is through bad debt accounts and obsolete inventory, which require subjective estimates or judgments in determining their value (Octaviana, 2022). Nature of industry is relevant because it can affect the ideal condition of the company, especially in terms of the balance of accounts receivable in its financial statements. Company management can take advantage of this limited information as an opportunity to manipulate financial statements, especially regarding the value of accounts receivable. In agency theory, management has an incentive to create larger profit reserves to improve company performance, while shareholders want accurate and transparent information about company performance. Therefore, management can use the estimated value of accounts receivable to overstate the balance of the allowance for bad debts, creating a profit reserve that increases future company profits. In previous research conducted by (Khamainy et al., 2022; Sari et al., 2022) that nature of industry has a positive effect on the occurrence of financial statement fraud.

H_2 : Nature of industry has a positive effect on financial statement fraud

Auditor changes is a phenomenon that can affect the reliability of a company's financial statements. Auditor changes often raises questions about the reasons behind the change. There are two main possibilities, first, the change may be an effort by management to improve audit quality and transparency of the company's financial information. Second, a change in a company's auditor may be an attempt to eliminate traces of fraudulent procedures detected by the previous auditor (Achmad et al., 2022). Based on agency theory, auditor changes can be a factor in the occurrence of financial statement fraud. This is due to the potential conflict of interest between management and shareholders, where managers try to manipulate financial statements for personal gain. According to Dung & Tuan (2019) auditor changes cause adverse selection problems caused by asymmetric information. In research (Lastanti 2020; Noble 2019) shows that auditor changes have a positive effect on financial statement fraud.

H_3 : Auditor changes has a positive effect on financial statement fraud.

Director changes is the transfer of authority from old directors to new directors, which aims to improve the performance of previous management (Lastanti, 2020). Director changes describes a significant change in company leadership, which can affect the policies and actions taken in managing the financial aspects of the company. Director changes is carried out to improve company performance, research shows that the results of director changes do not always have the expected impact (Sari et al., 2022). There are two possibilities for a director changes. First, new directors who replace old directors may have better competencies and skills to improve company performance. However, in addition, a director changes can occur due to indications of fraud or other problems involving the old directors. Based on the agency theory proposed by Jansen & Meckling (1976) this difference in interests can trigger agent behavior that is not always in line with the principal's interests. Thus, the change of directors can be a source of moral hazard problems, where management has an incentive to commit fraudulent acts due to lack of supervision from shareholders. In previous research (Fitriana et al., 2021; Hidayah & Saptarini, 2020; Sari et al., 2022) director changes has a positive effect on financial statement fraud.

H_4 : Director changes has a positive effect on financial statement fraud

When companies set financial targets, such as increasing profits, sometimes these targets can be too high or difficult to achieve which will encourage management to commit fraud to appear to meet the target. This causes a conflict of interest, where based on agency theory agents tend to prioritize achieving targets for personal incentives, such as bonuses or promotions, rather than considering the long-term interests of shareholders. Therefore, the role of the audit committee is very important which is to reduce conflicts of interest which are tasked with independently overseeing financial reports and ensuring that the targets set are realistic and do not encourage manipulation. According to Lastanti (2020) companies that have an effective audit committee will ensure that company management is sufficiently capable of making decisions in accordance with good corporate governance regulations, despite pressure. The Audit Committee can maintain a balance between achieving the company's financial targets and the integrity of financial statements and prevent fraud that can harm stakeholders.

H_5 : The audit committee weakens the effect of financial targets on financial statement fraud.

Uncollectible accounts and obsolete inventory are gaps that are often used to commit fraud, which require subjective estimates or judgments in determining value (Sihombing & Rahardjo, 2014). According to agency theory, company management has access to more information than shareholders. It can utilize this limited information as an opportunity to manipulate financial statements, especially related to the value of accounts receivable to increase company profits. Receivable.s that increase unnaturally, especially if they are not in line with sales growth, can be a signal that the company has committed financial statement fraud. Therefore, the role of the audit committee is very important to prevent this. The audit committee is tasked with overseeing the financial reporting process to be transparent and accurate. Although the pressure from the industry is high, the audit committee helps ensure that the financial statements are honest and up to standard, thus preventing potential manipulation (Sari et al., 2022).

H_6 : Audit committee weakens the effect of nature of industry on financial statement fraud.

Frequent auditor changes in a company can be an indicator of agency problems. Management may try to conceal weaknesses or discrepancies to appear favorable in the public eye or to meet certain targets. If auditor changes happen too frequently, it can raise suspicions that something is being hidden (Nikmah & Arjoen, 2023). However, the role of the audit committee is crucial, as they serve as an independent supervisor ensuring that the audit process runs smoothly and transparently (Rizkia et al., 2023). If the audit committee performs its duties effectively, it can prevent frequent auditor changes from becoming an opportunity for fraud in financial statements. In agency theory, the audit committee helps minimize information asymmetry and reduce the potential for moral hazard by management, there by lowering the risk of financial statement fraud.

H_7 : Audit committee weakens the effect of auditor changes on financial statement fraud.

A change in directors at a company can have a significant impact on its performance and integrity. Generally, such changes are made to improve performance or respond to market shifts. However, there is also a risk that a change in directors may be used to cover up fraud that occurred under previous leadership. In this situation, the role of the audit committee becomes crucial. In agency theory, the audit committee helps reduce information asymmetry between the directors and shareholders, which can mitigate the potential for financial statement manipulation. The audit committee is responsible for monitoring management's follow-up on internal audit findings (Dewi & Anisykurlillah, 2021). Thus, the audit committee oversees management's activities in addressing internal audit findings and ensures that management has properly fulfilled its responsibilities in preparing financial statements. The audit committee can reduce the risk of financial fraud that may occur due to changes in directors (Lastanti, 2020).

H_8 : Audit committee weakens the effect of director changes on financial statement fraud.

METHOD

This study uses a quantitative approach with a research design is a hypothesis testing study to test the influence between variables that have been formulated in the hypothesis in the study. The type of data used in this study is secondary data in the form of annual reports of health care companies published on the official website of the Indonesia Stock Exchange (IDX) and the official website of each company in 2016-2023 and data obtained through bloomberg laboratory as many as 32 companies. So that a population of 256 companies was obtained. This study uses purposive sampling technique by making certain criteria to determine the sample and obtained a sample of 185 units of analysis which is greater than the minimum sample of 156 units of analysis calculated using the slovin formula as shown in table 1. The data analysis technique used is panel data regression analysis using Eviews 12 software.

This study uses four elements of fraud diamond theory which include pressure proxied by financial targets, opportunity proxied by nature of industry, rationalization proxied by auditor changes and capability proxied by director changes as shown in table 2. In addition, as an originality in this study, adding a moderating variable, namely the audit committee, which is expected to weaken the relationship between the four elements of the independent variable and the dependent variable.

Table 1. Sampling Criteria

No	Criteria	2016	2017	2018	2019	2020	2021	2022	2023	Total
1	Health care sector companies listed on the IDX in the period 2016-2023	32	32	32	32	32	32	32	32	256
2	Health care sector companies that did not publish annual reports in 2019-2023	17	16	13	11	9	4	0	1	71
	Total Unit of Analysis	15	16	19	21	23	28	32	31	185

Source: Author, 2024

Table 2. Operational Definition Variables

Variable	Definition	Scale
Financial Statement Fraud	Intentional misstatement or omission of disclosures in the financial statements designed to deceive users of the financial statements.	$FScore = Accrual\ Quality + Financial\ Performance$ (Dechow et al., 2011).
Financial Target	Financial measures of the company in the form of business results that have been set by the agent.	$ROA = \frac{Net\ Income\ before\ extraordinary\ items\ (t-1)}{Total\ Assets\ (t)}$ (Skousen et al., 2008).
Nature of Industry	The ideal state of a company in the industry.	$Receivable = \frac{Receivable\ (t)}{Sales\ (t)} - \frac{Receivable\ (t-1)}{Sales\ (t-1)}$ (Skousen et al., 2008).
Auditor Changes	The occurrence of auditor changes in the company in the following period.	Score 1 if there is an auditor changes in the company and score 0 if there is no auditor changes (Santoso & Surenggono, 2018).
Director Changes	The occurrence of changes in the board of directors in the company in the following period.	Score 1 if there is a director changes in the company and score 0 if there is no director changes (Akbar et al., 2022).
Audit Committee	The total number of audit committee member meetings held in a certain period.	Number of audit committee meetings in one period (Sari et al., 2022).

Source: Author, 2024

This study uses descriptive statistical analysis to provide an overview of the data accompanied by calculations to clarify the characteristics of each data concerned as shown in table 3. The classical assumption tests used are normality test, multicollinearity test and heteroscedasticity test. The data analysis technique is panel data regression analysis with the selected model being the Common Effect Model (CEM). There are two panel data regression model equations, namely first testing the relationship between the independent variable and the dependent variable and second testing the relationship between variables using moderating interactions. The panel data regression model equation is as follows:

FSCORE = α + β1FTit + β2NIit + β3CAit + β4CDit+ β5KAit + €……………………..(1)

FSCORE = α + β1FTit + β2NIit + β3CAit + β4CDit+ β5KAit + β6FT*RKAit + β7NI*RKAit + β8CA*RKAit + β9CD*RKAit + €……..........................…………………(2)

RESULTS AND DISCUSSION

The multicollinearity test results show all variable values < 0.8, meaning that the research data shows the presence of multicollinearity symptoms. In heteroscedasticity test using the glejser test, all variables have a value > 0.05, it can be concluded that the research data does not have heteorskedasticity symptoms. This study has an Adjusted R^2 squared value of 0.240425, meaning that the independent variable is able to explain the dependent variable by 24.04%, while 75.96% will be explained by other variables. Based on table 4, the results of hypothesis testing using the Common Effect Model (CEM) are explained as follows.

The Effect of Auditor Changes on Financial Statement Fraud

The results showed that the prob value was 0.1836 > 0.05, meaning that the hypothesis was rejected, so it can be said that auditor changes have no effect on financial statement fraud. Auditor changes is often considered as a sign that there is a problem in the company's financial statements. However, the auditor changes are not always related to this because it can be used to improve the performance of the external auditor in the last period and to improve the quality of the company's financial statements so that investors are interested in investing in the company (Achmad & Pamungkas, 2019). This finding does not support agency theory, where when management feels threatened by auditors who demand transparency and accuracy, companies will change auditors as a way to avoid strict supervision, thereby increasing the risk of fraud. This research is in line with that conducted by (Bader et al., 2024; Fathmaningrum & Anggarani, 2021; Hidayah & Devi Saptarini, 2019; Omukaga, 2020; Sari et al., 2022; Sunardi & Amin, 2018).

The results of descriptive statistical analysis in this study are presented in below.

Table 3. Statistics Descriptif

	Mean	Median	Maximum	Minimum	Std. Dev	N
FSCORE	0.258176	0.132453	3.449012	-1.698093	0.707904	185
ROA	0.074209	0.065408	0.065408	-0.279327	0.094159	185
RECEIVABLE	0.008977	0.007049	0.477540	-0.305450	0.083330	185
AUDCHANGE	0.464865	-	1.000000	0.000000	0.500117	185
DIRCHANGE	0.524324	-	1.000000	0.000000	0.500763	185
ACMEET	6.724324	4.000000	52.00000	0.000000	7.004246	185

Source: Output Eviews 12, 2024

Hypothesis	Coefficient	Prob.	Results
H1: Financial targets have a positive effect on financial statement fraud.	1.305.639	0.0099***	Received
H2: Nature of industry has a positive effect on financial statement fraud.	-3.681.976	0.0000	Accepted
H3: Auditor changes has a positive effect on financial statement fraud.	-0.013291	0.1836	Rejected
H4: Director changes has a positive effect on financial statement fraud	0.124247	0.8851	Rejected
H5: Audit committee weakens the effect of financial targets on financial statement fraud.	0.033743	0.7570	Rejected
H6: Audit committee weakens the effect of nature of industry on financial statement fraud.	0.185000	0.0549*	Accepted
H7: Audit committee weakens the effect of auditor changes on financial statement fraud.	0.023917	0.1483	Rejected
H8: Audit committee weakens the effect of director changes on financial statement fraud	0.041258	0.0613	Rejected

***significant at 1%, **significant at 5%, *significant at 10%

Table 4. Research Results

Source: Processed secondary data, 2024

The Effect of Director Changes on Financial Statement Fraud

The results showed that the prob value of 0.7570 > 0.05 means that director changes have no effect on financial statement fraud. According to (Akbar et al., 2022) companies change directors because the company needs a leader who can help the company to maintain the continuity of a company's business. Therefore, the role of the board of directors in making decisions and formulating policies is very important for the company. The change of directors in the company mentioned in the annual report may occur due to a transfer of authority and the results of the RUPS (Fathmaningrum & Anggarani, 2021). This finding does not support agency theory which states that there are differences in interests between agents and principals. In this case, management as an agent changes the board of directors for personal gain (Achmad & Pamungkas, 2019). Wolfe & Hermanson (2004) state that the reason companies change directors is because the highest shareholder in the company wants to improve company performance by recruiting directors who are considered more competent than the previous directors. This research is in line with that conducted by (Achmad et al., 2022; Handoko & Natasya, 2019; Situngkir & Triyanto, 2020; Syahria, 2019).

Audit Committee Moderates the Effect of Financial Target on Financial Statement Fraud

The research findings show a prob value of 0.7570 > 0.05, indicating that the hypothesis is rejected, meaning the audit committee cannot mitigate the influence of financial targets on financial statement fraud. When companies set high financial targets, management tends to feel pressured, which drives them to commit financial statement fraud. Although the audit committee is responsible for oversight, they do not have sufficient access to obtain detailed information regarding the preparation of financial reports like management does, making it difficult to detect fraud. This does not support agency theory, as the audit committee lacks sufficient power to uncover fraud due to the conflict of interest between management and shareholders. As a result, the audit committee is unable to prevent fraud. The research findings are consistent with studies by (Nikmah & Arjoen, 2023; Rizkia et al., 2023).

Audit Committee Moderates the Effect of Nature of Industry on Financial Statement Fraud

The research findings show a prob value of 0.0549 > 0.10 with a positive coefficient, meaning that the audit committee is able to weaken the influence of the nature of industry on financial statement fraud. The audit committee functions as an internal oversight mechanism that assists the board of commissioners in ensuring that financial reporting is done transparently and accurately. By supervising the participation of management and independent auditors in the financial reporting process, the audit committee supports the implementation of good corporate governance. This research supports agency theory, where the audit committee can reduce the conflict of interest between the agent and the principal. With an effective audit committee, transparency, accountability, and compliance with financial reporting standards are expected to improve, thereby weakening the pressure that may arise from the nature of industry to commit fraud. This research aligns with the study by Sari et al. (2022), which shows that the role of the audit committee in overseeing and ensuring the integrity of financial reporting reduces the risk of financial statement fraud. The research findings are consistent with studies by (Setyowati & Muniroh, 2024; Sunardi & Amin, 2018).

Audit Committee Moderates the Effect of Auditor Changes on Financial Statement Fraud

The research findings show a prob value of 0.1483 > 0.05, proving that the audit committee is unable to mitigate the influence of auditor changes on financial statement fraud. Frequent auditor changes may indicate that the company is hiding something, making it difficult for the audit committee to examine the true reasons behind the change. The research does not support agency theory, which expects an effective oversight mechanism to minimize potential conflicts of interest between the principal and the agent. Although the audit committee provides recommendations regarding the appointment of auditors, management may claim that the auditor change is a step to obtain a more independent auditor, while in reality, it is done to cover up fraud (Nikmah & Arjoen, 2023). This research is consistent with studies conducted by (Rizkia et al., 2023; Sari et al., 2022).

Audit Committee Moderates the Effect of Director Changes on Financial Statement Fraud

The research findings show a prob value of 0.0613 > 0.05 with a positive coefficient, meaning that this hypothesis is rejected. The audit committee is unable to mitigate the relationship between changes in directors and financial statement fraud. This is because changes in directors often bring about shifts in leadership and company policies, which can be used to cover up previously occurring fraudulent activities. These findings do not support agency theory, as the role of the audit committee fails to reduce information asymmetry due to its inability to optimally perform its oversight function, thereby failing to protect the principal's interests and prevent fraud resulting from director changes. Without strict oversight, new directors may have greater freedom to commit financial statement fraud to achieve certain goals. Changes in directors can also disrupt the audit committee's workflow and oversight strategies, especially if there are changes in priorities or leadership styles. This research is consistent with studies conducted by (Lastanti, 2020; Nikmah & Arjoen, 2023).

CONCLUSION

Based on the test results, it can be concluded that of the four components of diamond theory, only financial targets have a positive and significant effect on financial statement fraud. Other components, namely nature of industry, auditor changes and director changes, have no effect on financial statement fraud. The audit committee as a moderating variable is able to weaken the nature of industry's relationship to financial statement fraud, while it is unable to moderate the relationship between financial targets, auditor changess and director changess on financial statement fraud.

The limitations of this study are that it only uses elements of diamond theory with the same proxies as previous research, this study only uses health care companies with a small number of companies and uses the commonly used audit committee moderating variable. For future research, researchers are expected to use the latest theory and use proxies other than those used in this journal, add control variables such as company size or company growth so as to increase the R2 value and can use other research samples such as the energy or mining industry because this research is only limited to healthcare companies.

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