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Fraud Triangle Determinants of Financial Statement Fraud: The Moderating Role of Audit Committees in Indonesian Construction Firms

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Keywords: *Financial Target, External Pressure, Ineffective Monitoring, Change in Auditor, Fraud Financial Reporting, Audit Committee*

Abstract: This study investigates the influence of financial targets, external pressure, ineffective monitoring, and auditor turnover on fraudulent financial reporting, while also examining the moderating role of the audit committee. The sample comprises construction sub-sector firms listed on the Indonesia Stock Exchange over the 2020–2025 period, selected using purposive sampling, resulting in 90 firm observations. This research adopts a quantitative approach utilizing secondary data derived from annual reports obtained through the Indonesia Stock Exchange and respective corporate websites. Data analysis is conducted using multiple regression and moderated regression analysis (MRA). The findings indicate that financial targets, ineffective monitoring, and auditor turnover are positively associated with fraudulent financial reporting, whereas external pressure exhibits a negative relationship. Furthermore, the audit committee does not significantly moderate the effects of financial targets, ineffective monitoring, and auditor turnover; however, it significantly moderates the relationship between external pressure and fraudulent financial reporting.

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Introduction

Financial statements constitute a primary source of information for evaluating a firm's financial position, performance, and cash flow generation. Consistent with PSAK No. 1 (2015), their fundamental objective is to support stakeholders in making well-informed economic decisions. However, a growing body of recent literature indicates that financial reporting is not always neutral, as it may involve material misstatements—whether arising from error or intentional manipulation—which can lead to fraudulent financial reporting (Khairunnisa & Setiawati, 2022; Kassem & Higson, 2022; Suryanto et al., 2023). Such practices ultimately undermine the reliability of corporate disclosures and diminish stakeholder trust in financial information.

Fraudulent financial reporting, as defined in SAS No. 99, refers to the deliberate misrepresentation or omission of material information intended to mislead users of financial statements. Although less prevalent than other forms of occupational fraud, such as asset misappropriation or corruption, it tends to result in substantially higher financial losses, with a median loss reaching USD 766,000 per case (ACFE, 2024). Recent studies further emphasize that industries characterized by complex project structures and high financial leverage, such as construction, are particularly susceptible to such practices (Suh et al., 2022; Alzoubi, 2023). In Indonesia, this sector has been identified as especially vulnerable, highlighting the urgent need to strengthen governance mechanisms and monitoring effectiveness.

Notable cases involving PT Wijaya Karya Tbk (WIKA) and PT Waskita Karya Tbk (WSKT) illustrate how financial statements may be strategically manipulated to present an overly optimistic financial condition despite underlying economic challenges (Tempo, 2023; Liputan6, 2024). These cases reaffirm the relevance of the fraud triangle framework—comprising pressure, opportunity, and rationalization—in explaining fraudulent behavior (Vousinas, 2019; Ozili, 2023, Oboh, Obigbemi, & Fagboro, 2026). Within this framework, financial targets and external pressures represent sources of pressure, ineffective monitoring reflects opportunities for misconduct, and auditor turnover may serve as a form of rationalization.

Empirical evidence on the relationship between fraud triangle elements and fraudulent financial reporting remains inconclusive. While several studies document a positive and significant relationship (Jao, 2020; Hakim et al., 2024; Kabuye et al., 2023), others report negative or statistically insignificant findings (Syafitri, 2021; Nurhafifa et al., 2023; Narsa et al., 2022., Riyaza & Nurhasana., 2025). These inconsistencies suggest the presence of contextual factors that may influence the effectiveness of fraud predictors, thereby indicating a gap in the literature, particularly in sector-specific settings such as the Indonesian construction industry.

To address this gap, the present study investigates the impact of financial targets, external pressure, ineffective monitoring, and auditor turnover on fraudulent financial reporting, while incorporating the audit committee as a moderating variable. The analysis focuses on construction sub-sector firms listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period, a context characterized by elevated fraud risk yet limited empirical exploration. Accordingly, this study aims to provide robust empirical evidence on the explanatory power of fraud triangle elements in detecting financial reporting fraud, as well as to evaluate the effectiveness of audit committees in moderating these relationships. The findings are expected to contribute to the growing body of literature on corporate governance and fraud prevention, while also offering

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practical implications for regulators, auditors, and corporate stakeholders in strengthening oversight mechanisms and enhancing the integrity of financial reporting.

Research Method

This study employs a quantitative research design using secondary data obtained from the annual reports of construction sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2020 - 2024. The purposive sampling technique was applied, resulting in a sample of 90 companies that met the specified criteria.

The population consists of all construction sub-sector companies listed on the IDX between 2020 and 2024. The sample was selected based on purposive sampling, considering the availability of complete annual reports and disclosure of audit committee structures.

The data used in this study are secondary data, collected from the official IDX website and the respective companies' websites. The data include financial statements, audit committee information, and auditor turnover records.

The dependent variable in this study is fraud financial reporting, proxied by indicators of financial misstatement in annual reports.

The independent variables consist of:

1. Financial Target: measured by Return on Assets (ROA);
2. External Pressure: measured by leverage ratio.
3. Ineffective Monitoring: measured by audit committee independence and effectiveness.
4. Change in Auditor: measured by auditor turnover.

The moderating variable is the Audit Committee, measured by the presence and effectiveness of audit committee structures.

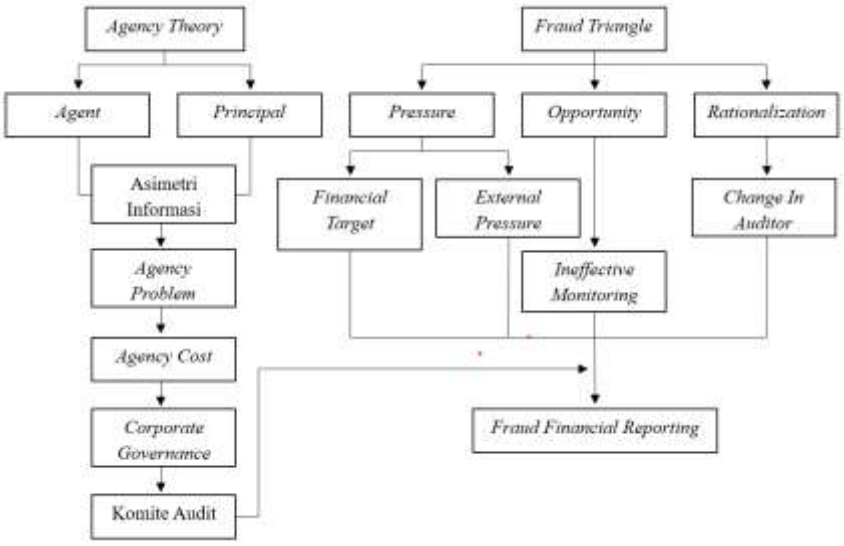


Figure 1. Conceptual Framework

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Result and Discussion

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-,461	,315		-1,466	,147
	Financial Target	,506	,169	,251	2,990	,004
	External Pressure	-,171	,022	-,637	-7,883	,000
	Ineffective Monitoring	1,753	,711	,199	2,465	,016

Source: SPSS output processed by the researcher, 2025

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	,800	2,292		,349	,728
	Financial Target	-6,342	10,195	-3,147	-,622	,536
	External Pressure	-,763	,230	-2,834	-3,312	,001
	Ineffective Monitoring	3,200	4,515	,364	,709	,481
	Change in Auditor	-,111	1,002	-,053	-,110	,912
	Komite Audit	-,447	,701	-,388	-,638	,526
	X1M	2,304	3,392	3,432	,679	,499
	X2M	,194	,076	2,359	2,553	,013
	X3M	-,413	1,325	-,243	-,312	,756
	X4M	,131	,296	,253	,443	,659

a. Dependent Variable: *Fraud Financial Reporting*

Source: SPSS output processed by the researcher, 2025

The empirical results indicate that firms facing more demanding financial targets are more likely to engage in financial statement manipulation in order to satisfy stakeholder expectations. This finding supports prior evidence suggesting that heightened performance pressure increases the propensity for fraudulent reporting (Jao, 2020; Hakim et al., 2024; Rumapea et al., 2024).

External pressure, proxied by leverage, is found to have a negative association with fraudulent financial reporting. This outcome implies that firms with higher debt exposure may exercise greater caution in financial reporting to preserve their reputation and maintain the confidence of creditors. While this result is consistent with the findings of Rumapea et al. (2024) and Wicaksono et al. (2023), it diverges from studies conducted by Artana et al. (2023) and Fatimah et al. (2024), thereby reflecting the ongoing inconsistency within the literature.

Furthermore, ineffective monitoring is shown to significantly increase the likelihood of fraudulent financial reporting. This suggests that weak oversight mechanisms, particularly those related to audit committee effectiveness and broader governance practices, create opportunities for managerial opportunism. Such evidence reinforces earlier studies that emphasize the

importance of robust monitoring systems in mitigating fraud risk (Wilantari et al., 2024; Novita et al., 2024).

In addition, auditor turnover exhibits a positive relationship with fraudulent financial reporting. This finding may indicate that changes in external auditors are, in some cases, associated with managerial attempts to justify or facilitate opportunistic reporting behavior, potentially by seeking auditors perceived as more accommodating. This interpretation is consistent with prior research (Umar et al., 2020; Mustakim & Kurniawati, 2025).

Regarding the moderating role of the audit committee, the results reveal a significant effect only in the relationship between external pressure and fraudulent financial reporting. This suggests that audit committees may play a role in mitigating the influence of debt-related pressures on reporting behavior, although their effectiveness appears limited when addressing other dimensions of the fraud triangle.

Taken together, these findings reaffirm the continued relevance of the fraud triangle framework—encompassing pressure, opportunity, and rationalization—in explaining fraudulent financial reporting. However, the moderating capacity of audit committees remains constrained, particularly within the context of the Indonesian construction sector, indicating the need for strengthening governance practices to more effectively curb fraudulent behavior.

Conclusion

This study examines the impact of fraud triangle components—namely financial targets, external pressure, ineffective monitoring, and auditor turnover—on fraudulent financial reporting, while incorporating the audit committee as a moderating variable. The analysis is based on data from construction sub-sector firms listed on the Indonesia Stock Exchange (IDX) over the 2020–2024 period. The findings reveal that financial targets, ineffective monitoring, and auditor turnover are positively and significantly associated with fraudulent financial reporting, whereas external pressure exhibits a negative relationship. In terms of moderation, the audit committee is found to play a significant role only in the relationship between external pressure and fraudulent financial reporting. However, it does not significantly influence the relationships involving financial targets, ineffective monitoring, or auditor turnover.

From a practical standpoint, these results underscore the need to reinforce the role of audit committees in strengthening oversight mechanisms and minimizing opportunities for fraudulent behavior. Ensuring the independence, expertise, and authority of audit committee members is essential for improving the quality of financial reporting and corporate governance practices.

Nevertheless, this study has several limitations. The analysis relies solely on secondary data derived from annual reports, which may not fully capture the complexity of fraud-related behavior. In addition, the focus on a single industrial sub-sector limits the generalizability of the findings. Future research is encouraged to extend the scope across different industries, apply

mixed or qualitative research approaches, and consider additional governance variables that may further explain or mitigate fraud risk.

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