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RISK MANAGEMENT AND OTHER FACTORS PREVENTING FRAUDULENT FINANCIAL REPORTING BY STATE-OWNED ENTERPRISES IN INDONESIA

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ABSTRACT

This study aims to provide an overview of the effects of risk management and the implementation of good corporate governance (GCG), and the effectiveness of the internal audit function on the prevention of fraudulent financial reporting and its impact on the quality of financial reporting of state-owned enterprises (SOEs) in Indonesia. Questionnaires are used to determine risk management and other factors that influence each other and their impact on the quality of financial reporting. The questionnaire and survey results of 90 state-owned enterprises (BUMN) and 360 respondents. SEM-PLS was used to analyze the data, and the results show that the implementation of GCG, the effectiveness of the internal audit function and risk management have an effect on financial reporting. This is based on the results of research stating that the effectiveness of the internal audit function is able to prevent financial reporting fraud. The professionalism of the internal auditor, who must carry out audits in a correct and professional manner, demonstrates their credibility. This, and audit training, is often not optimal.

Contribution/Originality: In contrast to the focus of previous research, this study highlights fraud in financial reporting that occurs in SOEs because there are still many who manipulate data to make profits look bigger and to receive bonuses or awards. Furthermore, this is the first time that state-owned enterprises in Indonesia have been used as the sample.

1. INTRODUCTION

State-owned enterprises (SOEs) are a combination of public and private sector businesses. They are market-oriented and self-sustaining businesses, but the state retains a large stake through majority or full ownership (Bruton, Peng, Ahlstrom, Stan, & Xu, 2015). SOEs are business entities whose capital is largely owned by the state either directly or indirectly through distinguished state wealth. The term 'state ownership' is typically used to denote control. By offering products and services in domestic and foreign markets, SOEs significantly contribute to the economy. Simultaneously, the government uses SOEs for a variety of additional purposes, including strategic resource and technology management, large-scale job maintenance and national brand promotion.

Economic and financial crime is closely related to changes and progress in society and has the potential to increase as a result of human creativity to adapt to changes in society (Achim, Văidean, Borlea, & Florescu, 2021). Recent corporate scandals in financial institutions worldwide have raised huge concerns among investors and regulators, not least in Asian countries as well as SOEs (Tao & Hutchinson, 2013) regardless of whether the global financial crisis was a result of excessive risk taking. While the risks faced by companies are due to global influence and revolution of industry 4.0, business actors are also surprisingly challenged by the impact of the rapid development of the industrial revolution, which makes it more difficult for the companies and entrepreneurs to overcome (Tai, Lai, & Yang, 2020).

In many cases, there are signs or indicators of fraud in financial reporting, and decision makers should be aware of these signs to prevent poor decisions being made; however, such corruption persists resulting in loss of investor confidence, reputational damage and the emergence of potential fines that will then lead to criminal acts (Ernst Jr & Young, 2010). The destruction of large companies, such as Enron, Global Crossing and World Com caused by the amount of fraud in their financial reporting, led to a decrease in the level of trust from shareholders, financial markets and the global community in general (Law, 2011).

Various forms of fraud related to accounting scandals, and confidence in the reliability and objectivity of financial statements for interested parties, have occurred significantly. In this context, the management, board of directors, audit committee, external auditors and internal auditors have an important role in ensuring quality and reliable financial reporting (Zager, Malis, & Novak, 2016). Fraud in financial reporting occurs as a result of misrepresentation due to planned irregularities in financial statements to outwit users of financial information and improper actions on assets or misappropriations related to generally accepted accounting principles in Indonesia. Many studies have been conducted to illustrate the fraud occurring in financial reporting in companies in the field of financial services, especially both government and private banks (Al-Hashedi & Magalingam, 2021; Asteriou, Pilbeam, & Tomuleasa, 2021; Blass & Grossman, 1996; Di, Shaiban, & Hasanov, 2021; Flore, Degryse, Kolaric, & Schiereck, 2021; Königstorfer & Thalmann, 2020; Silva, 2021; Zhao, Li, Yu, Chen, & Lee, 2022).

In contrast to the focus of previous research, the current research highlights fraud in financial reporting that occurs in Indonesia, especially in SOEs, as many of these still manipulate accounting data to make their profits look greater to obtain bonuses or awards. Given that fraudulent acts are often hidden and rarely made public, calculating the total loss poses significant complications. The actual costs of fraud may be higher because they include indirect costs associated with losses to investors, creditors, and employee credibility, as well as the reputation of the company as a result of future crises. In extreme cases, fraud can result in bankruptcy (Ahmad, Ciupac-Ulici, & Beju, 2021). In addition, public accountants are believed to have covered up fraud and did not make corrections (Hasan, 2013).

Table 1 shows several companies, including state-owned enterprises in Indonesia, that experienced substantial losses due to fraud in financial reporting. PT Garuda Indonesia suffered a loss of USD 244.95 million; this happened due to an error in the 2018 financial statements, and in 2017, PT Life Insurance was found to have engineered its financial statements. The financial reporting was not carried out in accordance with the guidelines, and the company suffered a loss of Rp. 7.7 trillion. In 2018, an inspection of PT Pos Indonesia by the Internal Supervisory Unit of PT Pos Indonesia Regional Office in Medan found that there was an abuse of 6000 stamps, and the loss was estimated at Rp. 2 billion. PT Waskita Karya was found to have made improper recordings, namely the excess recording of net income in the 2004–2007 financial reports, resulting in a loss of Rp. 400 billion, and PT Kereta Api Indonesia (KAI) was found to have engineered the numbers in its 2005 financial report, which resulted in a loss of Rp 600 billion. Based on the facts, we focused this research on the following three questions: How do corporate governance failures affect risk management? What is the impact of corporate governance failures on the financial reporting of SOEs in Indonesia? Why would a trusted public accountant cover up fraud and not correct errors?

The current study aims to estimate the impact of corporate governance failures on risk management and false financial reporting on SOEs in Indonesia. Accordingly, we analyzed a sample of 90 SOEs in Indonesia using the structural equation model (SEM) based on partial least squares (PLS) variance because the measurement model is formed by variables that have both formative and reflective indicators. The SEM-PLS model consists of an outer model (measurement model) and an inner model (structural model).

Table 1. Cases of fraud that occurred in SOEs.

Name of BUMN	Causes/Root Causes	Loss
PT Garuda Indonesia	There was an error in the presentation of the financial statements in 2018, namely increased profits. Garuda Indonesia should have recorded a loss of USD 244.95 million in 2018, but in the financial statements, it showed a net profit of USD 809.84 thousand, a sharp increase from 2017, which recorded a loss of USD 216.58 million. This is because PT Garuda was too quick to recognize revenue, and the recognition of income is not in line with PSAK 23. PSAK 23 explains that income must be recognized by the time the work has been completed or performance obligations have been fulfilled.	Loss of USD 244.95 million
PT Life Insurance	The 2017 financial statements of PT Life Insurance were found to have been manipulated. The company recorded a profit of Rp 360.3 billion but received an adverse opinion due to a shortage in backup of Rp 7.7 trillion. If a backup is carried out in accordance with the rules, the company suffers a loss.	Rp 7.7 trillion
PT Pos Indonesia	In 2018, based on the results of an inspection conducted by the Medan Regional I Supervisory Unit, it was found that there were 349,000 stamps misused with a unit price of Rp 6,000 so the total loss was estimated at Rp 2,094,000,000.	Estimated to be worth Rp 2 billion.
PT Waskita Karya	The new President Director of PT Waskita Karya found that there was an inappropriate recording of the excess net profits in the financial report for 2004–2007.	Rp 400 billion
PT Indonesian Railways (KAI)	In its 2005 financial report, the company recorded a profit of Rp 6.9 billion instead of correctly recording a loss of Rp 600 billion.	Rp 600 billion

Our results are very strong and highlight the effect of Risk Management on False Financial Reporting on the quality of financial statements, the Effect of Good Corporate Governance on False Financial Reporting on the quality of financial statements and the Effect of the Internal Audit Function on False Financial Reporting on the quality of financial statements. We also found the impact of False Financial Reporting on the quality of financial statements. The significance of our research lies in its accurate estimates and strong results that provide results regarding the impact of corporate governance failures on risk management and false financial reporting on SOEs in Indonesia.

The remainder of this paper is organized as follows: the next section contains a detailed literature review of the main determinants of good corporate governance, risk management and fraudulent financial reporting; Section 3 describes the methodology and data; Section 4 contains the results; and Section 5 concludes the study.

2. LITERATURE REVIEW

2.1. Implementation of Good Corporate Governance and Fraudulent Financial Reporting

Businesses that change their corporate identity without changing their operations are more likely to commit financial reporting fraud. The positive correlation between company renaming and financial reporting fraud was stronger in non-state-owned companies and companies with lower concentrations of ownership. In addition, evidence proves that company renaming is more likely to be associated with disclosure-related fraud, and the likelihood of fraudulent behavior grows as company renaming becomes more common. In general, the study's findings provide a new red signal for regulators and investors conducting financial fraud investigations. The work is topical and has policy implications for market regulators who want to build and strengthen emerging capital markets with generally weak and unclear information environments (Zhang, Zhang, & Yao, 2022).

Furthermore, research on the following groups of factors that contribute to fraudulent behavior includes the influence of internal people and issuers (including individuals whose internal information has not been discovered by the company), the collusion of issuers and securities firms, the power held by influential individuals within the company, the complex organizational structure of the issuing (one person handling multiple positions), and the failure of the issuer to properly control the information internally; (ii) fraudulent investors (Nguyen, Nguyen, Nguyen, Selvarajan, & Baskaran, 2022). Improved risk-taking management also increases the likelihood of financial fraud (Johnson, Lowe, & Reckers, 2021). Having an independent board of directors that is separate from management is very important for auditors. In addition, we expanded our audit and governance committee board analysis to show that organizations in the fraud and non-fraud industries sensed a link between weak governance procedures and financial fraud across multiple time periods and industries. Whenever the governance system is inadequate, the auditor must consider the impact of the audit (Beasley, 2000).

Good corporate governance (GCG) is an effort to prevent fraudulent financial statements (Kusumaningtias, Ludigdo, Irianto, & Mulawarman, 2016). This is in accordance with the statement that good corporate governance is one of the efforts to prevent financial reporting that contains elements of fraud (Razali & Arshad, 2014). Implementing good corporate governance can prevent fraud (Matei & Drumasu, 2015). Effective corporate governance by directors and management can prevent financial reporting fraud with the implementation of anti-fraud policies, and effective corporate governance in the form of compliance with the law and openness in government is needed in the public sector to prevent fraud by using forms of internal control (Iqbal, 2015). Good corporate management in the form of transparency, accountability, independence and fairness can improve fraud prevention through the implementation of internal controls, anti-fraud policies, and carefully selected officers (Mahrani & Soewarno, 2018). Good corporate management means that financial statements reported to the public will be free from accounting errors and fraud. This implies that good corporate governance in forms such as audit committees, top-level management and independence of the board of directors, can prevent financial reporting fraud by pressure reduction, opportunity reduction and justification reduction (Appiah, 2015).

Directors and senior management can help improve fraud prevention through internal controls (Manzaneque, Priego, & Merino, 2016). Effective corporate management through the board of directors and management can prevent fraud in financial reporting through internal controls and is important in improving the credibility of financial reporting. Based on several opinions and research conducted by experts, the implementation of good corporate governance can be interpreted to have an influence on preventing fraudulent financial reporting (Rezaee, Olibe, & Minmier, 2003).

2.2. Effectiveness of Internal Audit Functions and Preventing Fraudulent Financial Reporting

Effective internal auditing can be used by companies in an effort to prevent fraudulent financial reporting (Camfferman & Wielhouwer, 2019). The existence of an internal audit or compliance department can prevent fraud by creating internal controls, such as audit planning, testing and evaluating information. The submission of audit findings and results of follow-up examinations, have the biggest role in fraud prevention through the creation of an honest culture, management's responsibility for evaluating risks and fraud, and supervision to eliminate opportunities for deception (Roszkowska & Melé, 2021). Improvements in internal auditing, such as independence, competence, scope of work and implementation of inspection activities, will increase fraud prevention in financial statements through reduced opportunities and reduced justification (Alleyne & Howard, 2005; Madawaki, Ahmi, & Ahmad, 2022). Independence and competence can prevent fraudulent financial reporting by implementing internal controls and conducting management supervision to improve the quality of financial statements (Rifai & Mardijuwono, 2020).

Companies that conduct internal audits can better detect and prevent fraud through environmental control and management mechanisms to improve organizational value (Ismael & Roberts, 2018).

2.3. Risk Management and Preventing Fraudulent Financial Reporting

Risk management principles are applied in the public sector in a manner similar to how corporate governance is applied in private companies. The legislator's proposal aims to contribute to more effective and efficient planning, organization and execution of public duties (Mormul, 2021). Risk is characterized by measured or unmeasured uncertainty and significant potential harm (Ali, Hussain, & Iqbal, 2021). Risk increases with the level of exposure and vulnerability to decreased applicable formalities and proactive management strategies for individuals or organizations. A company's risk can be reduced through diversification and hedging actions and transferred to third parties who are prepared to cover it through insurance, factoring and underwriting (Kuo, Lin, & Chien, 2021). The dominant emigrants choose risky investments in terms of taking over minority shareholders, and stricter governance mechanisms can help mitigate this opportunistic behavior (Caixe, 2021). As a newly formed subcommittee of the board of directors, a risk management committee (RMC) serves as an important governance support mechanism for the oversight of an organization's risk management strategies, policies and processes. However, actual evidence relating to the existence and types of RMCs remains scarce (Subramaniam, 2009).

A study conducted by Ko, Lee, and Anandarajan (2019) has shown that banks face significant losses as a result of increased operational risk. To avoid losses, banks must manage operational risks, which includes identification, assessment, analysis, monitoring and control of operational risks in the presence of sound corporate governance (CG), which can also contribute to effective operational risk management (ORM) procedures. After conducting research, CG and operational risk identification (ORI), monitoring and control were found to have a major impact on ORM procedures at the Pakistan commercial bank (Altaf, Ayub, Shabbir, & Usman, 2021). Corporate governance and organizational features affect the existence of a risk management committee, and the existence of a risk management committee affects a company's performance. In addition, the RMC serves as a buffer between corporate governance and corporate characteristics and their effect on the company's performance (Badriyah, Sari, & Basri, 2015). Furthermore, (González, Santomil, & Herrera, 2020) stated that the implementation of enterprise risk management (ERM) had no effect on the performance of Spanish companies (which were assessed by return on equity, return on assets, or Tobin's Q) and had no effect on the likelihood of bankruptcy. Having a chief risk officer (CRO) can lower performance while improving financial health assessed from distance to default. In terms of the relationship between risk hedging and profitability and the level of risk, we observed that hedging exchange rate risk increases profitability (González et al., 2020).

2.4. Implementation of Good Corporate Governance and Financial Reporting Quality

Improving the quality of financial reporting due to good corporate governance is well implemented (Kaawaase, Nairuba, Akankunda, & Bananuka, 2021). The higher the governance mechanisms (characteristics of the board, audit committee, board independence, board size and growth), the higher the quality of financial reporting in the form of accrual models with the McNichols model in Nigeria (Almaqtari, Hashed, & Shamim, 2021). The establishment of good corporate governance, such as transparency, accountability, responsibility, independence and fairness, play a role in producing quality financial statements that are relevant, reliable, comparable and understandable in BPJS Tangerang (Adiputra, Utama, & Rossieta, 2018). Governance mechanisms using the characteristics of the board of directors and the company's ownership structure can improve the quality of financial reporting in the form of an accrual model with the McNichols model in Tunisian companies (Yasser, Al-Mamun, & Hook, 2017). The quality of the audit committee and internal auditors also has a major contribution in improving the quality of financial statements in the form of punctuality (Baatwah, Salleh, & Stewart, 2019). Governance mechanisms (board of commissioners and audit committee) can improve the quality of a company's financial reporting through honest presentation to avoid misleading the users in the decision-making process (Kaawaase et al., 2021). Good corporate management characteristics, such as transparency, board of directors and an independent audit committee, also play a role in improving the quality of financial reporting (Salehi, Ajel, & Zimon, 2022). Stronger corporate governance mechanisms in the form of a board of commissioners can support quality financial reporting using an honest and accurate form of presentation (Kapoor & Goel, 2019). The establishment of effective corporate governance principals, such as investor and shareholder protection, family principles equivalent to saha'm holders, stakeholders' roles in company management, transparency, and the responsibility of the board of directors, can help to ensure that financial reporting is reliable, comparable, understandable and timely in Jordan (Nazir & Afza, 2018). Good corporate governance in the form of directors and audit committees does not affect quality financial reporting by using honest and neutral presentations (Halbouni, Obeid, & Garbou, 2016). Based on previous research, implementing good corporate governance can have an effect on the quality of financial reporting.

2.5. Effectiveness of Internal Audit Function and Fraudulent Financial Reporting through Financial Reporting Quality

The internal audit function is carried out effectively, thus qualifying financial reporting (Tumwebaze, Bananuka, Kaawaase, Bonareri, & Mutesasira, 2021). Effective internal auditing can achieve improved quality of financial reporting (Kaawaase et al., 2021). The high-quality internal audits in the form of independence and competence of internal auditors can lead to high-quality financial reporting using the accrual model form of the Jones model. Thus, the function of internal audit in the form of internal auditor independence can improve the quality of financial reporting in terms of reliability (Bierstaker, Chen, Christ, Ege, & Mintchik, 2013; Tumwebaze et al., 2021). Internal audit in the form such as internal audit planning, verification and assessment of activities, reports and communication of audit activities, follow-up and evaluation of results as well as coordination and cooperation with external auditors can help improve high-quality financial statements by using forms such as relevance and reliability and credibility (Algabry, Alhabshi, Soualhi, & Alaeddin, 2020).

There are two characteristics that must be possessed by an auditor, namely competence and independence. A competent auditor has an interest or expertise in his field, while an independent auditor is not controlled by any party.

Audits that are independent and professional were shown to support the improvement of quality financial reports that are relevant, comparable, reliable and understandable in seven regional governments, such as Karesidenan Pekalongan, Indonesia (Boskou, Kirkos, & Spathis, 2019).

Internal audit task planning, communication and approval, resource management, internal audit policy and processing, coordination, program development, audit quality control and follow-ups can improve the quality of local government financial reporting (Madawaki et al., 2022). The involvement of larger internal audits led to improved quality financial reporting by banks in Spain (Gras-Gil, Marin-Hernandez, & De Lema, 2012). Good internal intelligence, authority of the audit committee, audit committee responsibilities, audit committee structure, tenure of audit committee members, audit committee meetings, audit committee reporting and audit committee performance will improve the quality of financial statements using basic financial statements frameworks, qualitative characteristics of financial statements, recognition of elements of financial statements and measurement of the elements in financial statements. It can also increase confidence in financial statements (Fariha, Hossain, & Ghosh, 2021). On the basis of research conducted by experts, the effectiveness of internal audit functions can have an influence on the quality of financial reporting.

2.6. Risk Management and Quality of Financial Reporting

Quality financial reporting will improve if risk management is applied in a company (Krause & Tse, 2016). Strong risk management, including employee participation, consistency, environmental adaptation and socialization, supports in producing quality financial reporting (Vasile & Croitoru, 2012). Risk management will affect the mindset, attitudes and actions at work to directly improve the quality of financial reporting. Positive thinking, prudence in all business decisions, teamwork, high customer service and innovation that reflect Javanese culture can shape the behavior from the top level to the bottom level and encourage ethical and transparent business practices to produce quality financial reporting in terms of reliability in Indonesian insurance companies (Cascio & Boudreau, 2014). Quality financial services are strongly influenced by risk management in Nigeria (Erin, Adegboye, & Bamigboye, 2022). The greater the risk management, the greater the quality of financial statements (Erin et al., 2022).

2.7. Fraudulent Financial Reporting and Financial Reporting Quality

Preventing fraudulent financial reporting will improve the quality of financial reporting (Dimitrijevic, Jovkovic, & Milutinovic, 2020). Early prevention of financial reporting fraud using internal controls can improve quality financial reporting through reliability (Sofyani, Abu Hasan, & Saleh, 2022). Preventing fraud can improve the quality of the financial statements of the regional government (Shonhadji & Maulidi, 2022). Preventing fraud through fraud policy supported the improvement of effective financial reporting in Nakuru's local government (Fossung, Fotoh, & Lorentzon, 2020). Preventing financial reporting fraud increased the quality of financial reporting by companies listed on the Nigerian Stock Exchange (Saji, 2021). Preventing accounting fraud through internal controls can help improve quality financial statements with reference to local government accounting standards, and ensure that financial statements are presented reliably, clearly, responsibly and timely (Salehi, Bayaz, Mohammadi, Adibian, & Fahimifard, 2020).

Based on previous research, preventing fraudulent financial reporting can have an influence on the quality of financial reporting. Following the ideas documented above, we set our research hypotheses as follows:

Hypothesis 1: The implementation of good corporate governance affects the prevention of fraudulent financial reporting.

Hypothesis 2: The effectiveness of internal audit functions prevents fraudulent financial reporting.

Hypothesis 3: Risk management affects the prevention of fraudulent financial reporting.

Hypothesis 4: The implementation of good corporate governance affects the prevention of fraudulent financial reporting through the quality of financial reporting.

Hypothesis 5: The effectiveness of internal audit functions affects fraudulent financial reporting prevention through financial reporting quality.

Hypothesis 6: Risk management affects the prevention of fraudulent financial reporting through the quality of financial reporting.

Hypothesis 7: Prevention of fraudulent financial reporting affects the quality of financial reporting.

3. METHODOLOGY AND DATA

3.1. Variable Size

Good corporate governance is a structural process used by state-owned organizations to increase the success rate of business and corporate accountability and to realize the wishes of stakeholders who are still considered in law and ethical norms. The principle of good corporate governance is the guidance needed by a company in the management of its business, which is in accordance with the Decree of the Minister of SOEs, Number: Kep-117/M-MBU/2002; The National Committee on Governance Policy consists of five principles that include transparency, accountability, fairness, responsibility and independence. The effectiveness of internal audits is shown by the level of achievement of the internal audit in carrying out quality checks through quality, the professional ability of internal auditors, and organizational arrangements (Marais, 2004). Preventing fraudulent financial reporting aims to inhibit people who attempt to commit fraud in financial reporting; therefore, if prevention against financial reporting fraud is implemented properly, the ability to inhibit people who can potentially commit fraud in financial reporting and reduce losses due to fraudulence will be stronger (Alqudah, Amran, & Hassan, 2019). Based on the above, preventing false financial reporting can happen through an environment of control, opportunity identification, and opportunity assessment. Quality financial reporting will create useful, qualitative information (Nirwana & Haliah, 2018). Based on the above, financial reform can be useful if the following criteria are sufficient: reliability, timeliness, understandability, measurability and relevance.

3.2. Methodology and Data

This study uses a survey method to collect information from several sources to allow comparison, explanation and clarification about facts related to events and people (Sekaran & Bougie, 2016). The object of the study is to obtain and analyze more targeted data, and is a collection of components that can be in the form of people and organizations among others (Sugiyono, 2013). The implementation of good corporate governance includes effective internal audit functions, risk management, prevention of false financial reporting, and quality financial reporting (Denziana, 2015). Unit analysis is targeted research in the form of an organization or a region according to the research focus. SOEs act as the unit of analysis in this study (Arikunto, 2013). A population can be described as a group of individuals, institutions, objects and populations can also be expressed in terms of elements, boundaries and time (Sekaran & Bougie, 2016). In this study, the target population consists of 115 SOEs located in Indonesia. The method used in this study is a probability sampling method with a simple random sampling technique. The minimum sample number in the study used Slovin's formula, with a tolerable error rate of 5%. Therefore, the final sample count comprises 90 SOEs. This study uses primary data and secondary data as the source. Primary data were obtained from interviews and questionnaires, and secondary data were obtained from books, journals, and other published literature and financial statements. The items in research instruments are structured on the basis of all established indicators. This study uses clear and simple language to facilitate respondents' understanding. Respondents in this study were the Directors of Finance/General Managers (GM) who handle financial statements, Audit Committee members, Internal Supervision Unit Managers (ISU) and Accounting/Financial Managers.

4. RESULTS

Socialization and questionnaire collection were conducted from January 24, 2021, to June 13, 2021. Questionnaires were distributed to 90 SOEs in Indonesia via email, shared via the Google form link and also sent via a document delivery service company (JNE) accompanied by envelopes and stamps for returning the completed questionnaires. A total of 36 SOEs returned completed questionnaires. Thus, the sample number in this study was 36 SOEs. According to Sekaran and Bougie (2016), samples over 30 and less than 500 are adequate sample sizes in most studies. The following presents the characteristics of respondents from the results of the questionnaires.

Table 2. Characteristics of respondents.

Characteristics of Respondents	Category	Frequency	Presentation
Position	Director of Finance/GM who handles financial statements	18	21.7%
	Audit Committee	8	9.6%
	Accounting/Finance Manager	29	34.9%
	SPI Manager	28	33.7%
Gender	Man	73	88.0%
	Woman	10	12.0%
Age	Less than 35 years	13	15,7%
	35–50 years old	40	48.2%
	Over 50 years old	30	36.1%
Education	D-3	2	2.4%
	S-1	44	53.0%
	S-2	32	38.6%
	S-3	5	6.0%
Length of Service	Less than 3 years	31	37.3%
	3–5 years	34	41.0%
	More than 5 years	18	21.7%

Table 2 presents the characteristics of respondents. The Accounting or Finance Manager group is the largest, with 29 people or 34.9%, the majority of respondents are male (73 people or 88.0%), and in the age category, the group aged 35–50 years was the largest, with 40 people or 48.2%. In the education category, Strata one (S1) has the largest number (44 people or 53.0%) and in the length of service category, 3–5 years had the largest number (34 people or 41.0%).

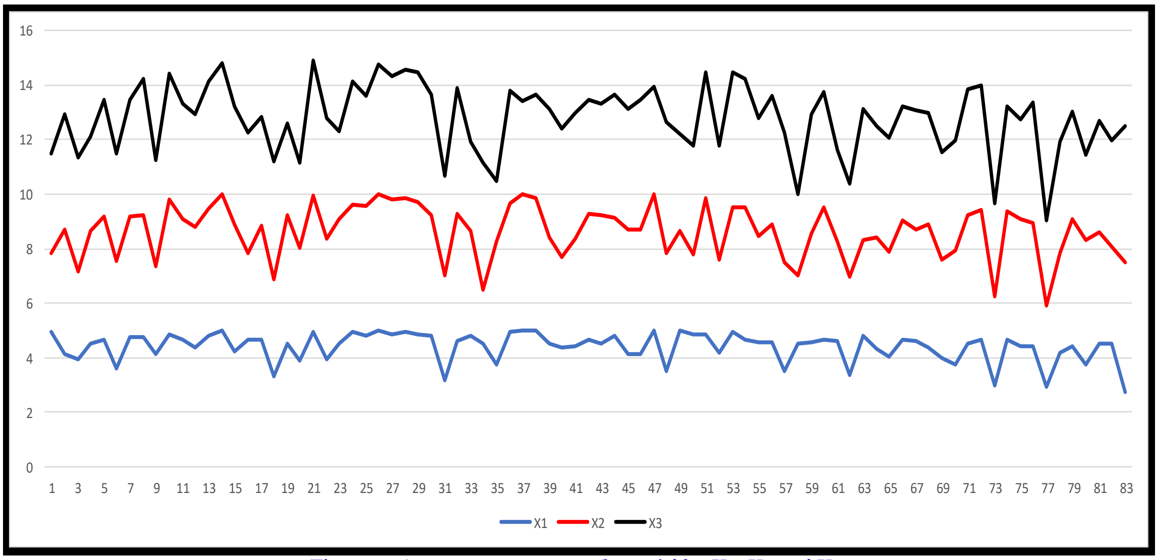

Figure 1. Average answer curve for variables X1, X2 and X3.

Based on Figure 1, the average overall response score for the implementation of good corporate governance is 4.41, which falls into the very good category of 4.21–5.00. When viewed from the basis of dimensions, the highest score is found in the fairness dimension with an average of 4.56, and the lowest score on the independence dimension has an average of 3.95. Furthermore, the overall average score of responses to the effectiveness of the internal audit function was 4.2, which is in the very good category (4.21–5.00). When viewed on the basis of its dimensions, the highest score is on the audit quality dimension, which obtains an average score of 4.60, the lowest value is in the organizational setting dimension with an average score of 3.89, and the average score of respondents overall for the risk management variable is 4.12, which is the good range of 3.41–4.20. If viewed on the basis of dimensions, the highest score is in the Technology Risks dimension, with an average of 4.42, and the lowest score is in the Credit Risk dimension with an average of 3.92.

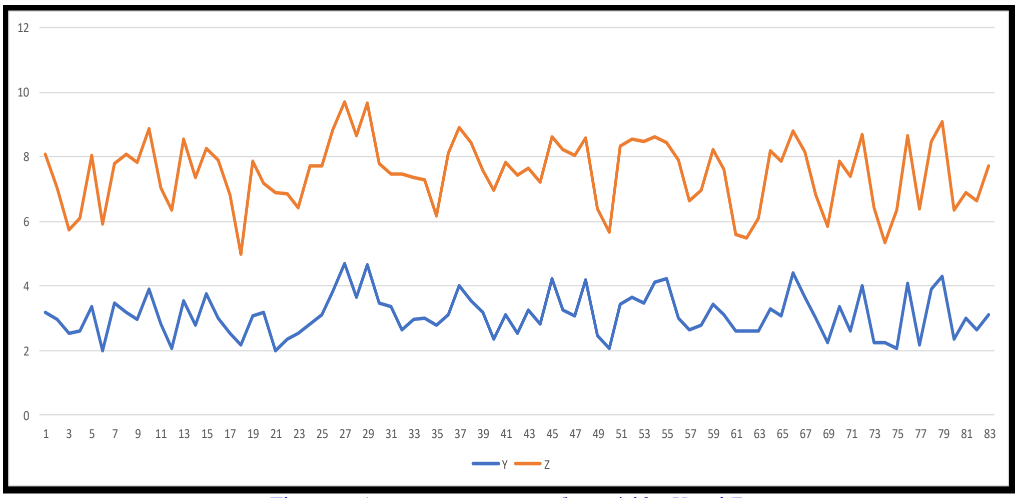

Figure 2. Average answer curve for variables Y and Z.

Based on Figure 2, it shows that the average response score for the fraudulent financial reporting prevention variable is 3.26, which is in the fairly good category (2.61–3.40). If viewed on the basis of its dimensions, the highest score is on the opportunity assessment dimension with an average score of 3.76, the lowest value is in the opportunity identification dimension with an average score of 2.61, and the average score for quality of financial reporting is 4.36, which is in the very good category (4.21–5.00). When viewed on the basis of dimensions, the highest score is in the understandable dimension, obtaining an average score of 4.56, and the lowest value is in the comparable dimension with an average score of 4.20.

4.1. Validity Test and Reliability Test

The validity test results using the product moment correlation (r) derived a correlation coefficient value (r) from each statement item greater than the critical value of 0.30. The reliability test using Cronbach's alpha obtained a reliability coefficient greater than the critical value of 0.70.

4.2. Hypothesis Testing Results

Path coefficients, t-calculates, p-values and R-squared are used in hypothesis testing using SmartPLS 3.3. The tables below present the results of the structural model tests.

Table 3. Good corporate governance hardness and reliability test.

Variable	Dimension	VIF	Outer weight	*p-value*
Good Corporate Governance	Transparency	2.713	0.231	0.000
	Accountability	3.283	0.269	0.000
	Fairness	4.893	0.377	0.000
	Responsibility	2.718	0.165	0.003
	Independence	1.972	0.130	0.001

Based on the information in Table 3, the results of the second order show that the five dimensions of implementing good corporate governance have a VIF value of < 5. This is feasible and shows that there is no collinearity problem in the five dimensions. The outer weights of the five dimensions are also significant because they have a p-value < 0.05. This shows that these dimensions are relevant to the construct and are valid. The dimension of fairness is the strongest in the formation of latent variables for the implementation of good corporate governance, and the dimension of independence is the weakest. Furthermore, to calculate the composite reliability and the average variant extract, the following formulas are presented:

The composite reliability formula:

$$CR = \frac{(\Sigma \text{std.Loading})^2}{(\Sigma \text{std.Loading})^2 + \Sigma e}.$$

The average variant extract formula:

$$CR = \frac{\Sigma \text{std.Loading}^2}{\Sigma \text{std.Loading}^2 + \Sigma e}.$$

E-values are obtained by:

$$e = 1 - \Sigma \text{std. Loading}^2.$$

Table 4 shows that the loading factor value of all dimensions is higher than 0.70, indicating that each of the four dimensions is valid in reflecting the latent variable of the effectiveness of the internal audit function. The composite reliability (CR) value of 0.907 is also higher than 0.70, which explains that each dimension of the four variables is consistent in measuring the effectiveness of the internal audit function. Thus, the latent variables formed have high consistency.

Table 4. Variable latent validity and reliability test.

Variable	Dimension	Loading Factor	CR	AVE
Effectiveness of Internal Audit Function	Audit Quality	0.890	0.907	0.766
	Professional Ability of Internal Auditors	0.890	0.907	0.766
	Organizational Settings	0.844	0.907	0.766
Risk Management	Market Risk	0.926	0.951	0.765
	Credit Risk	0.817	0.951	0.765
	Risk of Change	0.895	0.951	0.765
	Operational Risk	0.880	0.951	0.765
	Technology Risk	0.868	0.951	0.765
Fraudulent Financial Reporting	Control Environment	0.930	0.929	0.814
	Identification of Opportunities	0.916	0.929	0.814
	Opportunity Assessment	0.859	0.929	0.814
Quality of Financial Reporting	Relevance	0.877	0.935	0.782
	Reliability	0.878	0.935	0.782
	Comparability	0.886	0.935	0.782
	Understandability	0.895	0.935	0.782

Next, the average variance extracted (AVE) value is 0.766, which states that, on average, 76.6% of the information contained in all dimensions can be reflected through the latent variable of the effectiveness of the internal audit function. The loading factor value and the average variance extracted (AVE) value have been met in the convergent validity requirements. Table 4 also shows that the largest loading factor value for the internal audit function effectiveness variable is owned by the audit quality dimension and the internal auditor's professional ability dimension. These results indicate that audit quality and professional competence of internal auditors are more important factors in reflecting the effectiveness of the internal audit function compared to the dimensions of risk management.

Table 5. Summary of structural model test results.

Model	Relationship (Path)	Path Coefficient	t-count	*p-value*	R-*Squared*
Structure I	X_1 -> Y	0.377	3.581	0.000	0.450
	X_2 -> Y	0.316	2.307	0.022	
	X_3 -> Y	0.375	3.897	0.000	
Structure II	X_1 -> Z	0.287	2.098	0.037	0.753
	X_2 -> Z	0.187	1.851	0.066	
	X_3 -> Z	0.262	2.005	0.046	
	Y -> Z	0.482	4.818	0.000	

Source: Processed data, 2021.

Table 5 shows that the R-squared value of false financial reporting prevention variables is 0.450, proving that 45.0% of false financial reporting prevention variables are influenced by variables in the implementation of good corporate governance, effectiveness of internal audit functions and risk management. An R-squared of 0.753 exists on the financial reporting quality variable. This result proves that 75.3% of financial reporting quality variables are influenced by variables in the implementation of good corporate governance, effectiveness of internal audit functions, risk management and preventing fraudulent financial reporting.

The hypothesis testing describes the t-count (3.581) and t-table (1.96) values, the p-values ($0.000 < 0.05$), and the path coefficient value (0.377). Thus, implementing good corporate governance can have an effect on the prevention of fraudulent financial reporting. This finding means the better the implementation of good corporate governance, the better the prevention of false financial reporting.

Good corporate governance is a guideline for companies to achieve business success and must be consistently applied in SOEs. Based on respondents' answers, the implementation of good corporate governance was in the excellent category. The data explains that the implementation of good corporate governance in SOEs in Indonesia is very good, and the implementation of good corporate governance has been carried out with reference to the Decree of the Minister of SOEs Number: Kep-117/M-MBU/2002, and the application of good corporate governance has considered principles that include transparency, accountability, responsibility, independence, and fairness. Below is the full standardized coefficients model.

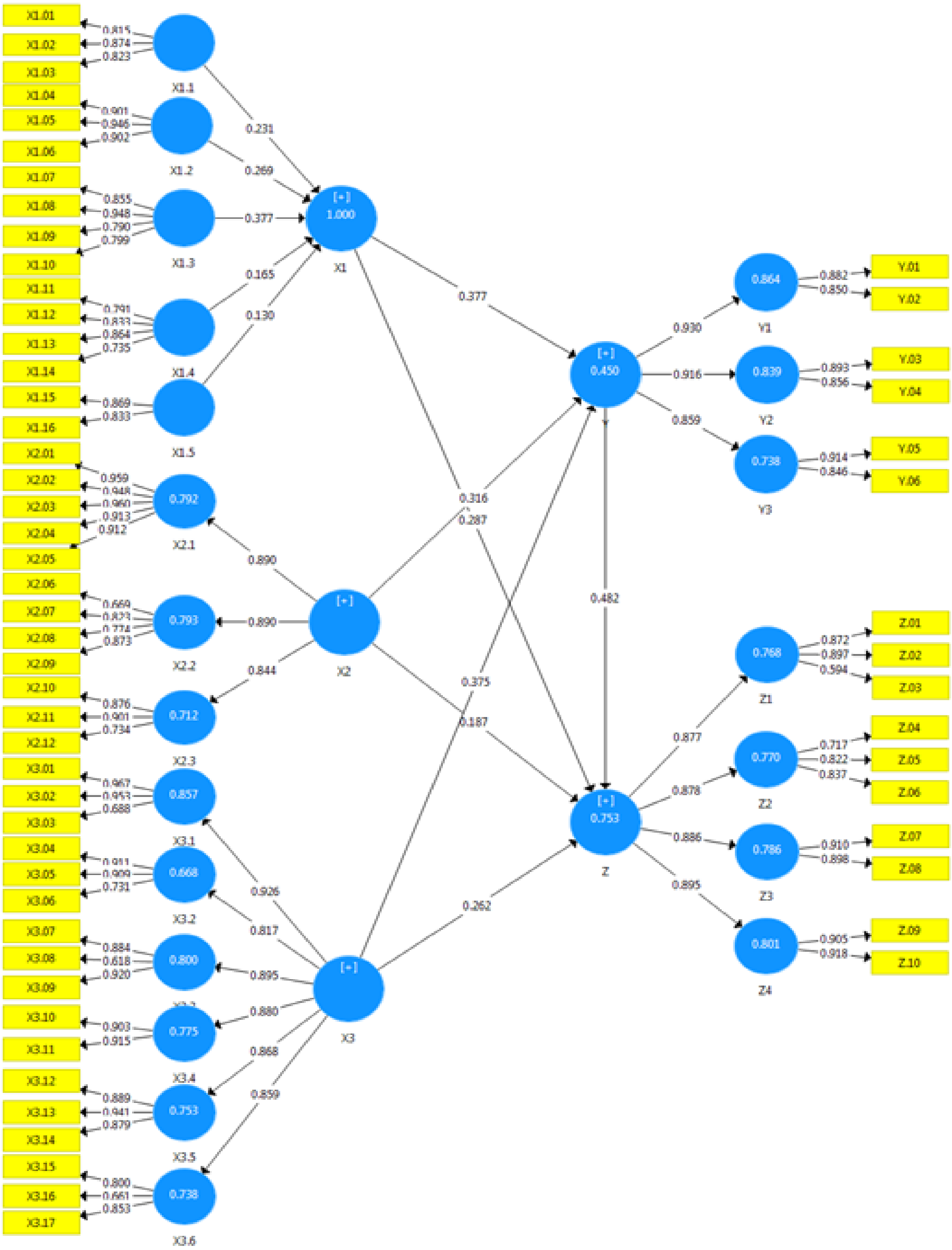

Figure 3. Full standardized coefficients model.

Figure 3 shows that the manifest variable with a loading factor of less than 0.4 must be removed from the measurement model, and a composite reliability value between 0.70–0.90 is said to be satisfactory or consistent. Furthermore, it can be seen that the loading factor of all indicators is higher than 0.4, thus it can be stated that all indicators are valid to measure the latent variables.

The results of this study also strengthen the theory of governance, which states that the process of managing activities properly and correctly should be carried out in a company to distribute strong services to the community. The manager (agent) in the implementation of activities must attempt to minimize conflicts of interest to successfully present the appropriate financial statements requested by shareholders (principal). One approach that can be applied to these interests is to apply a clear set of rules so that organizations perform optimally (Osborne, 2010; Stoker, 1998).

Transparency is about openness in conveying relevant information about the company. Respondents' answers to the transparency statements were in the excellent categories, which proves that the information submitted is always complete and accurate. Financial information and management analysis are always provided to shareholders and are consistently published over the internet in Indonesia. Accountability is the clarity of functions that contribute to the effective management of a company. Respondents' answers to the accountability statements were in the excellent category. This finding proves that SOEs in Indonesia have detailed corporate governance guidelines on the function, implementation and accountability of each company organ (interest holder), always conduct regular supervision and evaluation, and implement a reward and punishment system. Justice is impartiality and equality in fulfilling the rights of stakeholders based on applicable rules. Respondents' answers to the statements of fairness are in the excellent category, which proves that the rights of stakeholders are always protected in accordance with applicable laws, stakeholders always obtain relevant information, stakeholders are always given the opportunity to give their opinions, and shareholders always have the same position in their company (treated fairly in accordance with their shareholding) in SOEs in Indonesia. Accountability is the management's conformity to applicable regulations. Respondents' answers to the statements of accountability are in the excellent category, which proves that SOEs in Indonesia comply with applicable laws and regulations, carry out corporate social responsibility (CSR), and take responsibility in every action. If injustice occurs, then they consistently accept the consequences. They should always provide non-financial and financial information to those authorized to make investment decisions, especially appropriate and reliable information that is presented on time and can show comparisons. Independence in the management of the company is carried out professionally without pressure from any party. Respondents' answers to the declaration of independence were in the good category, which proves that SOEs in Indonesia have complete professional standards as a foundation of personnel in the company; activities within the company are not under pressure or do not encounter conflict of interest of any party that is incompatible with the company's principles. The implementation of good corporate governance, reflected in transparency, accountability, responsibility, independence and fairness, can prevent fraud in financial reporting (Bahrami, Rezaee, & Clennell, 2012; Indra, Karyono, Ratnawati, & Malik, 2013; Magnanelli & Izzo, 2017; Rezaee & Riley, 2010; Tabak et al., 2019; Yuhanis, Arafat, & Puspitasari, 2020; Zuhairah Ariff, Wan Izzat, & Ainul Jariah, 2014).

Table 6 contains the results of the hypothesis testing, which shows the t-count value as 2.307, the p-value is 0.022 (> 0.05), and the path coefficient value is 0.316. Therefore, the effectiveness of the internal audit function has an influence on the prevention of fraudulent financial reporting. Thus, when the internal audit function is effective, preventing fraudulent financial reporting also becomes effective.

Table 6. Structural model test results.

Type	Relationship (Path)	Path Coefficient	t-count	*p-value*	R-*Squared*
Structure I	x_1 -> Y	0.377	3.581	0.000	0.450
	x_2 -> Y	0.316	2.307	0.022	
	x_3 -> Y	0.375	3.897	0.000	
Structure II	x_1 -> Z	0.287	2.098	0.037	0.753
	x_2 -> Z	0.187	1.851	0.066	
	x_3 -> Z	0.262	2.005	0.046	
	Y -> Z	0.482	4.818	0.000	

The effectiveness of the internal audit function is the level of achievement of the organization in carrying out quality checks through the quality of the audit and the professional ability of internal auditors as well as through organizational settings. Based on respondents' answers, the effectiveness of internal audit functions obtained excellent categorization and effectiveness of internal audit functions through audit quality, professional capabilities of internal auditors and through organizational settings. These data show that the internal audit function of SOEs in Indonesia is very effective (Moeller, 2010; Tugiman, 2011).

The results of this study also reinforce the theory that auditing is necessary because of the needs of people who manage other people's properties. Thus, companies deserve to enlist the help of auditors to check the loyalty of company managers. The goal is to add transparency and clarity to everything (Hylton, 1964). Further, auditing is the process of collecting and evaluating all pieces of evidence that can be measured in an economic entity conducted by an independent and competent person. In conducting examinations, an auditor must also work in accordance with his or her professional standards (Redline et al., 2014).

The quality of an audit is reflected in the examination conducted by the auditor. The respondents' answers to audit quality reports are in the excellent category. This proves that the internal examiner always plans audits, sets objectives, and schedules audits, regulatory plans and presentations to the audited parties. The in-house examiner always conducts the testing and evaluation of information through the collection, analysis, interpretation and evidence of the veracity of information to support the results of the examination; the results of internal audit findings are always submitted immediately to the auditee as a test to be followed up; the internal auditing team has a consistently proactive task of conveying the findings of the audit results to be immediately followed up; the internal audit team always provides recommendations to management based on the findings that cause losses for companies in state-owned enterprises in Indonesia. Credibility and professionalism must be owned by the auditor in carrying out their responsibilities. Respondents' answers to the statements regarding internal auditors' professional abilities are in the good category, proving that SOEs in Indonesia always perform their duties without being affected by prejudice, misinterpretation or personal interest. They always use the auditor's code of ethics and professional standards that contain the principles of auditor behavior, which is a guideline for internal auditors in carrying out their duties. Specialized training must be undertaken, and expertise must be achieved in the field of auditing financial statements, thus the overall professional ability of internal auditors can support the effectiveness of internal audits. Respondents' answers to the regulatory statements were in the good category, which proves that implementing internal audits consistently requires using formal and technical guidelines. The above proves the effectiveness of the internal audit function in preventing fraudulent financial reporting (Aji, Berakon, & Md Husin, 2020; Asare & Wright, 2003; Coram, Ferguson, & Moroney, 2008; Jailani, Sugiman, & Apino, 2017; Kassabian et al., 2021; Prawitt, Sharp, & Wood, 2012; Tunggal, Higgins, & Waddell, 2010).

The information in Table 7 shows that the t-count value (3.897) > t-table (1.96), the p-value is 0.000 (<0.05) and the path coefficient value is 0.375. Therefore, it is confirmed that risk management has an influence on preventing wrong financial reporting. Risk management denotes the values within the organization that must be implemented consistently to achieve the company's defined goals. Based on respondents' answers, risk management was in the good category. Good risk management includes innovation, the courage to take risks, paying attention to detail, orientation to results, orientation to the team, and stability. These data show that risk management in SOEs in Indonesia is good (Judge & Robbins, 2017).

The study also reinforces the theory of organizational behavior, which states that organizational behavior is a science that addresses a person's perceptions, values and actions when working together within an organization and analyzes the effects of the outside environment on the organization by explaining three main aspects of organizational behavior: 1) norms, rules and conflicts; 2) leadership, and 3) organizational aspects, such as structure, culture, policy and other practices (Judge & Robbins, 2017).

Table 7. Hypothesis testing results.

Hypothesis	Path Coefficient	t-count	t-table	p-value	Conclusion
H1 = Implementation of Good Corporate Governance - Prevention of Fraudulent Financial Reporting	0.377	3.581	1.96	0.000	Ho rejected
H2 = Effectiveness of Internal Audit Function - Fraudulent Financial Reporting Prevention	0.316	2.307	1.96	0.022	Ho rejected
H3 = Risk Management - Fraudulent Financial Reporting Prevention	0.375	3.897	1.96	0.000	Ho rejected
H4 = Implementation of Good Corporate Governance on the Quality of Financial Reporting	0.287	2.098	1.96	0.037	Ho rejected
H5 = Effectiveness of Internal Audit Function - Quality of Financial Reporting	0.187	1.851	1.96	0.066	H1 rejected
H6 = Risk Management - Quality of Financial Reporting	0.262	2.005	1.96	0.046	Ho rejected
H7 = Prevention of Fraudulent Financial Reporting - Quality of Financial Reporting (Z)	0.482	4.818	1.96	0.000	Ho rejected

Respondents' answers to innovation statements and the courage to take risks were in the excellent category, proving that employees are always given the opportunity to develop new ideas with respect to the execution of their work; employees are always supported to innovate in the workplace and employees' work demands courage in taking risks in SOEs in Indonesia. Respondents' answers to statements regarding attention to detail were in the excellent category, which proves that the duties assigned to employees are always appropriate and consistent with the job description; every work process is always closely monitored, and if an error occurs, improvement/revision is carried out consistently in SOEs in Indonesia. Orientation is more focused on results than on the techniques and processes used in achieving those results. Respondents' answers to the orientation statement were in the good category, which proves that SOEs in Indonesia always apply quality standards in their work; the implementation of work is followed by the obligation to write a report, and no leeway is provided to their employees in meeting the target. Thus, orientation on the overall results can support risk management. Team orientation suggests the activities of a team, not just individuals.

Respondents' answers to the questionnaire statements are in the superior category, which proves that SOEs in Indonesia emphasize the importance of teamwork and always give clear tasks to the team. Also, based on the respondents' answers in the good category proves that SOEs in Indonesia always encourage and appreciate employees who work hard to show initiative and build a healthy competitive atmosphere in the workplace. Respondents' answers to the stability statements gained a good category. This finding proves that SOEs in Indonesia always have clear visions, missions and objectives; the latter rarely undergoes changes, and if a change occurs, it is certainly necessary. The existence of risk management is reflected in innovation and the courage to take risks, attention to detail, orientation to results, orientation to the team, aggressiveness and stability can prevent fraudulent financial reporting. To that end, it shows that risk management has an influence on the prevention of fraudulent financial reporting (Ahmed et al., 2018; Anggrayni & Nasution, 2021; Chariri, Bukit, Eklesia, Christi, & Tarigan, 2018; Geriesh, 2003; Indrawan, Wayan, & Komang, 2021; Judge & Robbins, 2017; Novianto et al., 2021; Sari & Ratnawili, 2021; Tunggal et al., 2010).

The results of hypothesis testing have shown that the t-count value of 2.098 > t-table (1.96), the p-value is 0.037, which is > 0.05, and the path coefficient value is 0.287. Therefore, implementing good corporate governance is proven to affect the quality of financial reporting. Establishing good corporate governance in SOEs must pay attention to principles that include transparency, accountability, responsibility, independence and fairness (Nur'ainy, Nurcahyo, Sri Kurniasih, & Sugiharti, 2013). Government theory states that the process of managing activities properly and correctly is carried out by companies in distributing strong services to the community. The manager (agent) in the implementation of activities must minimize conflicts of interest to effectively present the appropriate financial statements requested by shareholders (principal). This finding shows that the implementation of good corporate governance affects the quality of financial reporting (Klai & Omri, 2011; Nuraini, Hermawan, Hubeis, & Panjaitan, 2015; Nurdiniah & Pradika, 2017; Seow et al., 2020; Zielonka et al., 2017).

The hypothesis testing shows a t-count value of 1.851 (> t-table of 1.96), the p-value is 0.066 (> 0.05), and the path coefficient value is 0.187. Therefore, the effectiveness of the internal audit function has effect on the quality of financial reporting. Based on respondents' answers, the effectiveness of internal audit functions were in the excellent category, and the effectiveness of internal audit functions are demonstrated through audit quality, professional capabilities of internal auditors and through organizational settings (Amar, Chen, Gavious, & Weihs, 2021; Hansen, 2010). These data show that the internal audit function of SOEs in Indonesia is very effective. Audit theory is necessary because of the needs of people who can help manage other people's properties. Thus, companies deserve to enlist the help of auditors to check the loyalty of company managers.

Based on respondents' answers to the indicators of internal auditors' professional capabilities, one of them indicates that the internal auditor does not have full certification. This finding shows that the internal auditor has not fully understood the internal audit process. Consequently, the effectiveness of the internal audit function has effect on the quality of financial reporting. In this case, the internal auditor needs to have a certification from the Functional Office of the Auditor (JFA), because it shows the competence of the internal auditor.

The findings of the study are supported by the results of interviews conducted with the Director of Finance and the Head of the Accounting Sub Department which states that internal auditors do not yet fully have the certification of the Auditor Functional Position (JFA), because of the difficulty in obtaining this certificate. Often, mutations that occur in employees in the SPI section who are being given audit training cannot provide maximum results in audit training. Internal auditors perceive that examining financial statements by external auditors will be more detailed.

On the basis of the above problems, situations that affect internal audit functions have no effect on the quality of financial reporting. Thus, researchers suggest the following: 1) Internal auditors need to obtain certification to demonstrate their competence (Dien Bard, Hindler, Gold, & Limbago, 2014; Riupassa, Isranuri, Bahriun, & Tugiman, 2011); 2) Employees should be motivated to undertake audit training without coercion. In addition, company leadership should not transfer employees in the SPI section who are participating in audit training because audit training conducted by internal auditors is not optimal (Gliezner, 1988). Employees must be motivated to attend training (Noe, 2017). The support of the supervisor will speed up the training transfer process in both knowledge and skills. Internal auditors should not rely on external auditors in examining detailed financial statements, because internal auditors must have the ability (competence) to review detailed financial statement information (Laila, 2017). Audits conducted internally should comply with company and government policies (Grace & Sukrisno, 2017). Based on the above, the effectiveness of the internal audit function has effect on the quality of financial reporting (Astuti, Zuhrohtun, & Kusharyanti, 2015; Harahap, Suriani, & Rosmita, 2017; Johl, Johl, Subramaniam, & Cooper, 2013; Pranata & Laela, 2020; Surianti, 2021).

Hypothesis testing that has been done produces the following: t-count value (4.818) > t table (1.96), the p-value is 0.000 (< 0.05), and the path coefficient value is 0.482. Therefore, preventing fraudulent financial reporting affects the quality of financial reporting. This finding means that increasing the prevention of false financial reporting also improves the quality of financial reporting.

Preventing fraudulent financial reporting is an attempt to fend off people who could potentially commit fraud in financial reporting. Based on respondents' answers, preventing false financial reporting obtained by the category is quite good. Preventing false financial reporting is created through a control environment, opportunity identification and opportunity assessment. These data show that the prevention of false financial reporting in SOEs in Indonesia is good (Aksan, Setiawan, & Gantyowati, 2019; Ismail & Yuhanis, 2019; Jari & Theresa, 2017; Paranoan, Roreng, Tandirerung, & Tandungan, 2018; Priantara, 2013). The results of this study also strengthen the theory of Cressey's Fraud Triangle, where the cause of fraud is the presence of pressure, opportunity and justification (rationalization). Fraud prevention can be achieved using the Fraud Triangle theory by reducing pressure, opportunities and justification (Setiawan, 2018). Respondents' answers to the environmental control statements on top management commitment indicators are in the fairly good category. This proves that SOEs in Indonesia take responsibility for the company's risk management activities, internal control functions, preventing fraudulent financial reporting, the process of appointing and dismissing internal and external auditors, and conducting investigations into fraudulent activities.

In addition, regarding the indicators of financial capability, SOEs in Indonesia have opportunities to obtain loans/credit from banks; the company's cash is able to support expected profit growth, and excess debt is not caused by uncollected corporate receivables. Thus, the overall control environment can support the prevention of false financial reporting. Respondents' answers to opportunity identification statements on weak control are in the fairly good category. This proves that the false financial reporting that occurs is not caused by the cooperation of some parties to enjoy profits. Thus, identifying the opportunities to commit fraud can support the prevention of fraudulent financial reporting. Respondents' answers to the opportunity assessment statements on opportunity investigation indicators are in the good category. This proves that SOEs in Indonesia have the ability to detect false financial reporting carried out by management, have the ability to conduct investigations into false financial reporting, have the freedom to conduct investigations into false financial reporting, and use analytical procedures to detect false financial reporting. In addition, regarding the indicator of the delivery of financial information, SOEs in Indonesia present and report all financial information of the company, are involved in detecting irregularities in financial reporting implemented by the company's management, implement manual systems and procedures that have been established by the company, use information in financial statements as a basis for decision making, and have confidence in the reliability of the information submitted in the financial statements. Thus, an overall opportunity assessment can support the prevention of fraudulent financial reporting.

Preventing false financial reporting is reflected in the control environment; identification of opportunities and opportunity assessment can improve quality financial reporting. This finding suggests that preventing false financial reporting has an influence on the quality of financial reporting (Hussain, Rigoni, & Orij, 2018; Khalique, Isa, Nassir Shaari, & Ageel, 2011; Syahputri, Dalimunthe, Sabrina, & Rahmadhani, 2019).

5. CONCLUSION

The results of the analysis and testing conclude that good corporate governance has an influence on the prevention of fraudulent financial reporting. Good corporate governance is a guideline in managing a company to success. The application of good corporate governance in SOEs is reflected in five principles, namely transparency, accountability, responsibility, independence and fairness, thus enabling companies to prevent fraud in financial reporting. The effectiveness of the internal audit function has an influence on the prevention of fraudulent financial reporting. The effectiveness of the internal audit function is the level of achievement of the internal audit organization's function in carrying out quality examinations through audit quality, professional capabilities of internal auditors and organizational arrangements. Thus, the effectiveness of the internal audit function is able to prevent fraudulent financial reporting. The quality of the audit shows whether or not an examination has been done by an auditor, and the professional ability of internal auditors shows the credibility that must be owned by the auditor in carrying out his responsibilities.

Risk management has an influence on the prevention of fraudulent financial reporting. Risk management in a business context is an effort to avoid risk by monitoring the source of risk and tracking and making a series of efforts to minimize the impact of risk. If you are an entrepreneur, understanding the risk management process is one of the essential skills you must possess. Thus, managing risk can contribute to preventing fraudulent financial reporting. Implementing good corporate governance has an influence on the quality of financial reporting. Five principles contained in good corporate governance, i.e., transparency, accountability, responsibility, independence and fairness, are consistently carried out by SOEs. The effectiveness of the internal audit function has influence on the quality of financial reporting. This finding is based on interviews with related parties because internal auditors have not achieved certification of the Auditor Functional Position (JFA) due to the difficulty in obtaining this certificate. Job transfers occurring in the SPI section regarding employees who are being given audit training often do not achieve the maximum results in audit training. Furthermore, internal auditors perceive that examining financial statements will be more detailed if checked by external auditors. Thus, the effectiveness of the internal audit function has influence on the quality of financial reporting. Risk management has an influence on the quality of financial reporting. Risk management is reflected in innovation and the courage to take risks, attention to detail, orientation to results, orientation to the team, aggressiveness and stability in SOEs. Thus, quality financial reporting is crucial, as everyone is required to have a high work ethic, creativity, innovation, and honesty in implementing strategies to achieve company goals. Preventing fraudulent financial reporting includes efforts to deter people from potentially committing fraud in financial reporting, namely through an environment of control, opportunity identification and opportunity assessment.

Based on the research conducted, it is recommended that internal auditors should obtain audit certification from the Functional Office of the Auditor (JFA) because it demonstrates competence. The staff in the SPI section being given audit training should not be transferred first to another part by management because the audit training carried out by internal auditors is not optimal. Internal auditors should not rely on external auditors to examine detailed financial statements because internal auditors should have the ability to carry out this task.

Furthermore, this study has not explained all the variables that can affect the prevention of fraud that has an impact on the quality of financial reporting. Further research should include other variables, e.g., leadership style, manager religiosity, and competence of internal auditors. Researchers can use the current research as a starting point to carry out further studies using similar research methods but with different analytical units and samples with the intention of obtaining the same results (replicability).

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