

ABSTRACT

The research conducted aims to examine the influence of corporate governance implementation and its mechanisms on financial reporting fraud. In this study, several factors that serve as mechanisms of corporate governance are analyzed, including board independence, board remuneration, managerial financial expertise, managerial industry expertise, board financial expertise, board industry expertise, board effort coverage, and managerial ownership.

For this purpose, using systematic random sampling, data from 40 companies listed on the Indonesia Stock Exchange (IDX) over a six-year period, from 2016 to 2021, were collected. Hypothesis testing was performed using a panel data regression model with a random effects method.

In an effort to measure the level of financial reporting fraud, this research utilized the adjusted Beneish model. This model assists in evaluating the relevant corporate governance practices. All mechanisms of corporate governance, such as board independence, board remuneration, managerial financial expertise, managerial industry expertise, board financial expertise, board industry expertise, board effort coverage, and managerial ownership, were reviewed and computed as a composite index of corporate governance.

The results of the study indicate that corporate governance and its mechanisms have a significant influence in reducing a company's intention to engage in financial reporting fraud. Factors such as board independence, managerial financial expertise, managerial industry expertise, board financial expertise, board industry expertise, board effort coverage, and managerial ownership significantly contribute to the prevention of financial reporting fraud. However, board remuneration does not show a significant relationship in this regard.

The findings of this research provide valuable insights into the importance of strengthening corporate governance to prevent company managers from engaging in fraudulent financial reporting activities. Based on these findings, it is recommended that professional regulatory bodies more seriously adhere to regulations in governing companies and encourage the use and reinforcement of corporate governance practices. These efforts will help minimize the risk of fraudulent financial reporting and enhance overall company integrity.

Keywords: Corporate governance, fraudulent financial reporting, the Beneish model.