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Effective Monitoring as a Shield Against Financial Statement Fraud: A Case of Overvalued Equity in Indonesian Public Companies

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Abstract

Purposes: This study investigates how overvalued equity affects the occurrence of financial statement fraud in Indonesia and also examines the need for companies to uphold financial statement integrity effectively.

Methods: This study applies a quantitative method to analyze 387 data units from manufacturing companies listed on the Indonesian Stock Exchange (2017 to 2019). The logistic and moderation regression analyses are applied to investigate the roles of effective monitoring, proxied by audit committee and audit tenure, in the research model.

Findings: Research results revealed that overvalued equity significantly increases the likelihood of financial statement fraud, and that the audit committee can moderate its impact.

Novelty: This study addresses a critical gap in the literature by examining the impact of overvalued equity on financial statement fraud in the Indonesian context. Unlike prior research that focuses on developed markets, this study explores the moderating roles of effective monitoring and provides new insights into its effectiveness in mitigating fraud risks. Furthermore, grounded in agency theory, this research advances our understanding of governance mechanisms in emerging markets and offers practical implications for regulators and corporate governance practices.

Keywords*:* Financial Statement Fraud, Overvalued Equity, Effective Monitoring, Audit Committee, Audit Tenure, Corporate Governance

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INTRODUCTION

Financial statement fraud (FSF) so far remains the most harmful form of fraud until now (Shahana et al., 2023). Cases of FSF worldwide resulted in significant financial losses (Aksoy & Uzay, 2021; Hilal et al., 2022; Nasir & Hashim, 2020). As stated in Association of Certified Fraud Examiners report (ACFE, 2022), FSF losses are ranked inthe highest median losses compared to cases of asset misappropriation and corruption (Mandal & S, 2025). A significant trend also shows an increase in corporate executives' involvement, rising from 15% in 2016 to 62% in 2022 (ACFE, 2022). Different from other form of fraud, FSF is actually conducted by the company's

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executives, who bear full responsibility for the accurate presentation of financial statements, making it a critical concern for investors' trust in the credibility and reliability of company's financial statements.

High-profile cases that relate to the 2020 market manipulation scandals in Indonesia are resulted in significant losses for two well-known state-owned enterprises, ASABRI and Jiwasraya. These case underscores the severe impact of FSF cases and exposed the underlying issue of executives' potential to manipulate financial statements to maintain their overvalued equity (Ebhodaghe & Omoregie, 2020). Overvalued equity can creates pressure on management to engage in fraudulent activities to sustain inflated stock prices. Lau and Ooi (2016) support this view, suggesting that companies with overvalued equity are likely to engage in earnings management and financial statement fraud to maintain investor interests.

Previous research has consistently shown that effective monitoring as part of good corporate governance practices can reduce the likelihood of fraud in companies (Beasley, 1996; Crutchley et al., 2007; Eugster et al., 2024; Nadirsyah et al., 2024; Omar et al., 2015; Onesti & Palumbo, 2023; Persons, 2005). Previous studies have explored several factors influencing financial statement fraud occurence in Indonesia context, yet yielding mixed results (Achmad et al., 2022; Ghozali, 2018; Izzaty and Kurniawan, 2018; Nindito, 2018; Nindito et al., 2019) However, there is a gap in understanding the moderating role of effective monitoring in the relationship between overvalued equity and financial statement fraud in the Indonesian context.

This study fills this gap by investigating how overvalued equity impacts financial statement fraud and how effective monitoring—both internal (e.g., audit committees) and external (e.g., audit tenure) can mitigate this risk. This study adds novelty by testing the critical roles of robust monitoring mechanisms in preventing FSF in Indonesian public companies driven by overvalued equity.

The agency theory (Jensen and Meckling, 1976) explains the relationship between principals (shareholders) and agents (managers), where conflicts of interest arises due to mismatches in interests between two parties, especially in the case of overvalution of company's equity. This situation puts management under tremendous pressure to maintain its stock market value, increasing the risk of financial statement fraud as a manifestation of opportunistic behavior. Information asymmetry gives managers an informational advantage to meet unrealistic financial expectations and maintain overvalued equity, thereby committing financial statement fraud. From the perspective of fraud diamond theory (Wolfe and Hermanson, 2004), overvalued equities can be pressure that trigger the occurence of fraud, which is further strengthened by opportunities, rationalization, and capabilities that enable executives to commit FSF. Therefore, adequate supervision serves as a mechanism in corporate governance to reduce agency conflicts and assess the likelihood of fraud, thereby serving as a shield against financial statement fraud in public companies in Indonesia.

Furthermore, Jensen (2005) argued that overvalued equity can impair the resolution of conflicts of interest (Wolfe & Hermanson, 2004). Overvalued companies tend to resist market corrections and to prolong the overvaluation by manipulating financial statements, as highlighted by (Kothari et al., 2006). Moreover, agency theory explains that the principals-and-agents relationship often involves a conflict of interest caused by information asymmetry (Jensen & Meckling, 1976). in this case, managers posses more information about the company's internal affairs than their shareholders, and therefore might be motivated to act in their own self-interest, such as maintaining their reputation or receiving performance-based compensation. Overvalued equity, which happens when a company's stock price is valued higher than its fundamental value, causes pressure for managers to continue to maintain market expectations. This pressure can encourage opportunistic practices, such as manipulation of financial statements, to make performance look as investors expect (Wolfe & Hermanson, 2004). The capital market in the context of corporate equity that is overvalued will create and intensify conflicts of interest between managers and owners. Jensen (2005) also stated that one of the causes of overvalued

or undervalued equity is market inefficiency or applies to the market in the form of semi-strong form efficient. The market does not have all the information that the company manager has which is referred as asymmetrical information. Managers are the ones who know the most about whether their company's shares are overvalued or undervalued. Crutchley et al. (2007) stated that overvalued equity is one of the factors in the corporate environment that can cause accounting fraud which supports the overvaluation hypothesis by (Jensen, 2005). Overvaluation will result in a condition where earnings management becomes an inseparable practice for company managers. Jensen (2005) stated that in the end company managers with overvalued equity will commit accounting fraud as an effort to maintain the growth and value that has been formed now. states that managers should understand that higher stock market values are not always good. Therefore, overvalued equity can cause earnings management which will subsequently become a form of fraud because managers strive to achieve the growth expectations. Managers in companies that experience overvalued equity conditions are not only likely to reject market corrections but will also tend to prolong overvaluation conditions to meet market expectations for the company's optimistic performance and maintain the overvaluation (Burns & Kedia, 2006; Fuller & Jensen, 2010; Kothari et al., 2006). Therefore, the first hypothesis is as follows:

H_1: Overvalued equity positively affects Financial Statement Fraud.

The agency theory explains that overvalued equity also creates a strong reason for managers to commit financial statement fraud, as a form of misbehavior due to conflicts of interest and to maximize personal gains amids weak oversight mechanisms. Therefore, effective monitoring, both internal and external, is a good governance practice in the company. The diamond theory of fraud (Wolfe and Hermanson, 2004) states that effective monitoring will pressure and opportunity factors that may cause financial statement fraud. The effective internal monitoring function in corporate governance is held by the audit committee and the board of commissioners (Hogan et al., 2008; Utaminingsih et al., 2022). Meanwhile, financial statement fraud is fewer in companies with longer tenure audit committees because of better business/client knowledge which support the upkeep of company financial statements integrity (Persons, 2010; García Lara et al., 2009; Song et al., 2024; Xie et al., 2003). Previous research argued that small number of board meetings is a form of weak corporate governance mechanism that causes FSF (García Lara et al., 2009; Song et al., 2024; Xie et al., 2003) and that audit committee function negatively affect company's fraudulent activities (Eugster et al., 2024). Therefore, the next hypotheses of this study are:

H_2: Effective internal monitoring proxied by the frequency of company's audit committee meeting has a negative effect on financial statement fraud.

H_3: Effective internal monitoring proxied with the company's audit committee moderates the effect of overvalued equity on financial statement fraud.

In the perspective of the agency theory (Jensen and Meckling, 1976), the existence of an effective monitoring mechanism is seen as an important instrument to minimize conflicts of interest. External auditor is classified as effective external supervision mechanisms that can reduce agency problems. Reporting key audit matters disclosures by external auditors can flag potential fraud area. Bishop (2004) and Hogan et al. (2008) stated that external auditors together with internal auditors, and audit committee members should actively understand the pressures of executives by assessing the ability of company executives to manage existing pressures. Yang (2017) stated that financial statement users and regulators stipulate that external auditors are responsible to ensure that company's financial statements are free from mistatements due to errors or fraud. External auditors have important role in corporate governance related to the prevention, detection and mitigation of financial statement fraud. Rezaee (2005) also revealed that external auditors are one of the key participants in corporate governance in reducing financial statement fraud and ensuring the quality, integrity, transparency and reliability of financial statements.

External auditors added assurance on the quality of financial information which also limit financial statement manipulation.

Hogan et al. (2008) stated that several factors related to external auditors that affect the ability of external auditors to detect and mitigate financial statement fraud are the size of the KAP, the specialization of the KAP industry, the length of tenure, the experience of the auditor. Based on the above explanation, the next hypotheses are:

H_4: Effective external monitoring proxied with audit tenure has a negative effect financial statement fraud.

H_5: Effective external monitoring proxied with audit tenure moderates the effect overvalued equity on financial statement fraud.

Furthermore, this research framework can be described as follows:

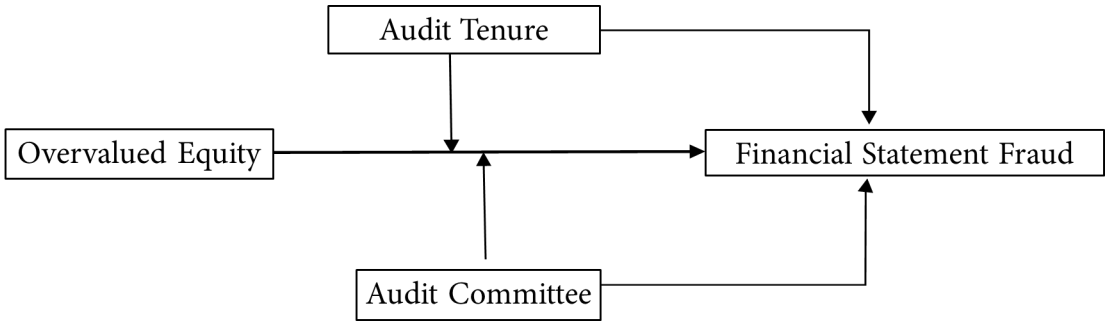

Figure 1. Research Framework
Source: Author, 2025

RESEARCH METHODS

This study applies a quantitative approach using logistic regression, and also moderation regression analysis which is processed by using SPSS Statistic 29. The dependent variable is FSF, and the independent variables are overvalued equity, effective internal and external monitoring. This study applied a quantitative approach with logistic regression analysis techniques and moderation regression applied to variables measured by ratio scale.

Sample and measurement

This research applies a purposive sampling on manufacturing companies listed in Indonesia as the sectors most indicated of the occurrence of financial statement fraud (Nindito et al., 2019). By applying purposive sampling, this research sample consists of 129 manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2019 which resulted in 387-unit data to be tested further. This study uses secondary data collected from company's financial statements obtained from company's website and the Indonesia Stock Exchange website. Furthermore, the independent variable of overvalued equity is calculated by the market to book ratio by measuring overvalued equity by break it down into the ratio of market to value (M/V) which shows misvaluation, and ratio of value to book (V/B) which shows growth opportunities (Rhodes–Kropf et al., 2005). Therefore, the market to book ratio can be written as Equation (1):

$$\frac{M}{B} = \frac{M}{V} \times \frac{V}{B} \quad \text{..... (1)}$$

So further if written in the form of an algorithm it will be Equation (2):

$$m-b=(m-v)+(v-b) \quad \text{..... (2)}$$

(m - v) indicates firm's market value deviation from it's true value, obtained from industry wide misvaluation and/or firm-specific misvaluation'.

The calculation of overvalued equity of a company, more specifically, is as follows: Step 1 on Equation (3):

$$m_{it} = \alpha_{0jt} + \alpha_{1jt} b_{it} + \alpha_{2jt} \ln(\mathrm{NI})_{it}^{+} + \alpha_{3jt} I_{(<0)} \ln(\mathrm{NI})_{it}^{+} + \alpha_{4jt} \mathrm{LEV}_{it} + \varepsilon_{it}, \text{ ..... (3)}$$

m: The market value of the company's shares three months after the Financial Statements are issued

B: Company Book Value = Equity Value/Number of Shares Outstanding

NI: Net income of the company

LEV: Leverage ratio of a company

Step 2 on Equation (4): calculate firm specific errors', time series sector errors' and long-run growth opportunities' of each company.

$$m_{it} - b_{it} = \underbrace{m_{it} - v(\theta_{it}; \alpha_{jt})}_{\text{firm}} + \underbrace{v(\theta_{it}; \alpha_{jt}) - v(\theta_{it}; \alpha_{j})}_{\text{sector}} + \underbrace{v(\theta_{it}; \alpha_{j}) - b_{it}}_{\text{long-run}} \text{ .....(4)}$$

In this study, the company's effective monitoring variables will be proxied by the meeting frequency of the audit committee, measured by the number of audit committee meetings in one financial year. Meanwhile, the effective external monitoring variables of the company in this study will be proxied by audit tenure, measured as the number of years KAP has conducted audits for the client company. Table 1 shows the definition of the operational variables used in this study.

Table 1. Variables: Definition and Measurement

Variable	Definition	Measurement
Financial Statement Fraud	Beneish M-Score (Beneish, 1999)	'**M-Score** = –4.84 + 0.92*DSRI + 0.528*GMI + 0.404*AQI + 0.892*SGI + 0.115*DEPI – 0.172*SGAI + 4.679*TATA–0.327*LVGI' '**DSRI**: days sales in receivable index (CY AR/sales)/(PY AR/sales)' '**GMI:** gross margin index ((PY sales – PY cost of sales) / PY sales) / ((CY sales – CY cost of sales) / CY sales)' '**AQI**: asset quality index (1– (CY CA+CY Net FA)/CY TA))/(1 – (PY CA + PY Net FA)/PY TA))' '**SGI**: sales growth index (CY Sales/PY Sales)' '**DEPI**: depreciation index (PY DE / (PY DE + PY Net PPE)) / (CY DE/(CY DE + CY Net PPE))' '**SGAI**: selling, general and administrative expenses index (CY SG&A/CY Sales)/(PY SG&A/PY Sales)' '**LI**: leverage index ((CY LTD + CY CL) / CY TA)) / ((PY LTD + PY CL)/ PY TA))' '**TATA**: total accruals to total assets index ((CY WC – PY WC) - (CY Cash – PY Cash) + (CY Income Tax payable – PY Income Tax payable) + (CY Current LTD – PY Current LTD) – CY DE)) / CY TA' If the value of M-Score > -2.22, categorized as a fraudelent; Whereas < -2.22, categorized as a non-fraudelent

Overvalued Equity	Market to Book Value (Rhodes, 2005)	Market to Book Value: $m_{it} = \alpha_{0jt} + \alpha_{1jt} b_{it} + \alpha_{2jt} \ln(\mathrm{NI})^{+}_{it} + \alpha_{3jt} I_{(<0)} \ln(\mathrm{NI})^{+}_{it} + \alpha_{4jt} \mathrm{LEV}_{it} + \varepsilon_{it},$ $m_{it} - b_{it} = \underbrace{m_{it} - v(\theta_{it};\alpha_{jt})}_{\text{firm}} + \underbrace{v(\theta_{it};\alpha_{jt}) - v(\theta_{it};\alpha_{j})}_{\text{sector}} + \underbrace{v(\theta_{it};\alpha_{j}) - b_{it}}_{\text{long-run}}.$ m-b: market to book ratio' m-v: firm's specific error v-v: time-series sector error v-b: long-run growth opportunity
Internal monitoring	Internal company's monitoring	The meeting frequency of audit committee
External monitoring	Tenure of public accounting firm	The number of years of KAP conducting audits on the client company.

Source: Data processed from various sources, 2025.

RESULTS AND DISCUSSION

The study employs descriptive statistics to provide an overview of the data used in the analysis. Table 2 shows the key descriptive statistics for the variables under investigation, including Overvalued Equity (OVEQ), Audit Committee Meetings (AUDCOM), Audit Tenure (TENURE), and Financial Statement Fraud (FSF).

Table 2. Descriptive Statistics

	N	Mean	Max	Min	Std. Dev
FSF	387	-1.704	13.007	-18.820	4.628
OVEQ	387	9.225	5.525	48.993	2.673
AUDCOM	387	0.855	3.000	0.000	0.347
TENURE	387	3.747	38.000	1.000	3.354

Source: SPSS Statistics 29 Output Results, 2025

The average FSF score in the sample is -1,704, which indicates that most companies do not have a high fraud score. Annual FSF data shows that there is an increase in the average FSF from 2016 and 2017 to 2018, indicating that fraud cases tend to increase in the last year. The average OVEQ in the sample is 9,225, indicating that most companies are overvalued. A comparison of three-year data shows that the average OVEQ tends to increase every year.

The average AUDCOM score in the sample was 0.855 times, indicating that most companies conduct less than one meeting per year, indicating a low frequency of oversight by audit committees. it also can be seen that the AUDCOM average decreases slightly every year, indicating that the frequency of audit committee meetings tends to decrease. In 2018, there were companies that did not hold audit committee meetings at all, which was not seen in the previous year. This may indicate a decline in surveillance activity in some companies.

The average tenure of external auditors in the sample was 3,747 years, which indicates that most auditors have short- to medium-term relationships with the companies in this sample. The auditor engagement tenure in this sample shows that the average value of auditor tenure increases every year, indicating the increasingly long relationship between auditors and companies

in this sample. The minimum value tends to be constant at 1 year, which indicates that every year there is a new company that works with auditors.

Table 3. Muticollinierity Testing

	OVEQ	CHANGE	OU	AUDCOM	TENURE
OVEQ	1.000	-0.108	0.037	0.024	0.056
AUDCOM	0.024	0.203	-0.133	1.000	-0.145
TENURE	0.056	-0.344	0.071	-0.145	1.000

Source: SPSS Statistics 29 Output Results, 2025

The multicollinearity test was exercised using a collinearity test as shown in Table 3. The coefficient values between two independent variables in this model show that all coefficient values below 0.80. Therefore, the conclusion is that that research model is free from the assumption of multicollinearity (Ghozali, 2018).

Regression Model Feasibility Testing

The feasibility the logistic regression model was tested using test of goodness of fitness, measured based on the Chi-Square value shown on this below test table:

Table 4. Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	5.710	8	.680

Source: SPSS Statistics 29 Output Results, 2025

Based on Table 4, it is known that the statistical value of Chi-Square is 5.710 and the value of Sig is 0.680. Note that the Sig value is 0.680 > 0.05, then it is concluded that the model is feasible and acceptable because it matches its observation data. This research model is able to predict the value of its observations.

Table 5. Classification Table[a]

		Observed	Predicted		
			Y		Percentage Correct
			0	1	
Step 1	Y	0	189	31	85.9
		1	125	42	25.1
	Overall Percentage				59.7

a. The cut value is .500

Source: SPSS Statistics 29 Output Results, 2025

The classification matrix below shows the power of this research regression model in predicting the likelihood of companies committing financial statement fraud. Table 5 shows that the predictive power of this research regression model in predicting fraud is 59.7%. In the Table 6 the results based on the omnibus test for Sig value is 0.009 < the significance level is 0.05, so it is concluded that overvalued equity, audit committee, and audit tenure together or simultaneously have a significant effect on Y.

Table 6. Omnibus Test

Likelihood Ratio Chi-Square'	df'	Sig'
13.617	4	.009

Dependent Variable: FSF
Model: (Intercept), OVEQ, AUDCOM, TENURE, M_AUD, M_TEN

a. Compared the fitted model to the intercept-only model.

Source: SPSS Statistics 29 Output Results, 2025

Coefficient of Determination (Nagelkerke R-Square)

Nagelkerke's R square is used to measure the ability of this logistic regression model to match or adjust data. Nagelkerke's R square value is interpreted as a value to measure the ability of overvalued equity, audit committee, and audit tenure to explain FSF in the research model.

Table 7. Nagelkerke R-Square

Model Summary

Step	-2 Log likelihood'	Cox & Snell R Square'	Nagelkerke R-Square'
1	515.598[a]	.0315	.196

a. 'Estimation terminated is at iteration number 4 - parameter estimates changed < .001'

Source: SPSS Statistics 29 Output Results, 2025

Based on Table 7, the Nagelkerke R-Square statistical value is 0.196. These values are interpreted as the ability of overvalued equity, audit committee, and audit tenure to influence FSF by 19.6%, and the remaining 81.4% is explained by other variables.

Table 8. Hypotheses Testing

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	OVEQ	.196	.162	1.455	1	.016	1.216
	AUDCOM	-.511	.314	2.655	1	.103	1.667
	TENURE	-.127	.378	.113	1	.737	.881
	M_AUD	-.025	.010	6.150	1	.013	.976
	M_TEN	-.011	.043	.065	1	.799	.989
	Constant	1.185	1.496	.627	1	.428	3.272

a. 'Variable(s) entered on step 1: OVEQ, AUDCOM, TENURE, M_AUD, M_TEN,

Source: SPSS Statistics 29 Output Results, 2025

The logistic regression test results (Table 8) shows that the regression model formed between the FSF, OVEQ, as well as AUDCOM and TENURE as moderating variables as follows: (Equation (5).

$$Ln\left(\frac{FSF}{1-FSF}\right) = 1{,}185 + 0{,}196OVEQ - 0.52OU - 0{,}511AUDCOM - 0{,}127TENURE - 0{,}25M\_AUD - 0{,}11M\_TEN + \varepsilon \quad \ldots\ldots (5)$$

The Effect of Overvalued Equity on Financial Statement Fraud

The results of this study support the first research hypothesis: OVEQ has a significant positive influence on the risk of FSF. The findings shows that agency problem created pressures which felt by managers bacause of investors' expectations for the high value of the company's shares, which later encourages managers to manipulate their financial statements. The results of this study are consistent with Efendi et al. (2007) who linked managers' pressure on OVEQ companies with earnings management. Efendi et al. (2007) found that companies with high OVEQ are more prone to fraud because managers feel the need to meet market expectations with the consequence of sacrificing report quality. Dechow et al. (2011) support this statement and also point out that companies with high overvaluation face a higher risk of FSF to maintain a positive public perception. In this case, market value is chosen over the integrity of financial statements.

Furthermore, Johnson et al. (2009) noted that overvalued companies may be forced to engage in manipulative actions under market pressure, but these effects can be mitigated by strong internal governance mechanisms. Burns and Kedia (2008) provide a similar result, showing that overvalued equity can trigger opportunistic behavior by managers seeking to maintain investor perceptions, especially in fast-growing or highly competitive sectors, thereby making companies vulnerable to fraud. OVEQ can affect the relationship between managers and shareholders and increase the risk of manipulation due to conflicts of interest in order to maintain the company's stock price in the market. OVEQ can be seen as a significant driver of fraud risk, especially for companies under high market pressure. However, internal control mechanisms such as the effectiveness of audit committees or the supervision of external auditors can act as mitigations against these risks.

Agency theory stated that conflicts of interest of stockholders and managers arises when goals of both parties are not aligned. In the case of overvalued equity, manager who has more information about the company's operations and financial status, may be compelled to exercise earnings management and other fraudulent activities to meet stockholders' expectation. The overvalued equity trend in this study suggests that managers actually face significant pressure to maintain the perceived market value. Jensen (2005) also argues that when a company's equity is overvalued, managers are more likely to engage in risky behavior to meet market expectations. The increase in equity values observed in the sample suggesting that managers try to manipulate financial statements in order to maintain overpriced equities. This behavior can lead to a continuous cycle of misrepresentation, exacerbating agency conflicts.

The Effect of Effective Internal Monitoring on Financial Statement Fraud

Test results show that the AUDCOM has a significance value of 0.113 towards the occurrence of FSF. Therefore, it can be concluded that the hyothesis 2 is rejected; the number of audit committee meetings does not influence the occurrence of fraud in financial statements. These findings indicate that the frequency of audit committee meetings cannot be used as the main indicator in assessing the risk or potential for fraud in the company's financial statements.

There are several possible explanations for these results: firstly, the result does not support the agency theory that stated that the audit committee serves as a supervisory mechanism to reduce conflicts of interest between management and shareholders. This study result support previous research stating that the frequency of audit committee meetings is not a significant factor to mitigate fraud risks. It is especially applied to meetings that are not sufficient in depth and quality. Abbott et al. (2000) and Yang and Krishnan (2005) found that the effectiveness of audit committees in preventing FSF is determined more by the independence and competence of their members and the quality of supervision carried out, rather than just the number of meetings. Without focusing on the essentials of the meeting, the oversight carried out by the audit committee can become a formality and missing out significant results.

Secondly, the frequency of audit committee meetings does not correlate with the potential for fraud if the meetings focus are only on general or routine operational matters and are not

directly related to auditing and financial supervision matters. Beasley et al. (2000) underlined that the audit committee must have a specific agenda related to risk supervision and auditing to be effective in reducing fraud. If the topic of discussion in the meeting does not focus on the potential for fraud or certain red flags, then the number of meetings is not enough to have a meaningful impact on fraud prevention.

Thirdly, an audit committee that holds more frequent meetings is not necessarily effective if its members do not have sufficient independence or competence. Dhaliwal et al. (2006) added that the independence and competence of its members are the main keys in fraud prevention. In this case, despite the high frequency of meetings, a lack of independence or expertise on the part of the audit committee members may lead to ineffective supervision. These findings also support Klein (2002) research which shows that the effectiveness of the audit committee in preventing fraud depends not only on its existence or the number of meetings, but also on the quality of supervision and the depth of discussions conducted. Fourthly, this result suggests that AUDCOM may not be strong enough as a fraud watchdog if it is not supported by other external and internal monitoring mechanisms, such as monitoring from independent auditors and also an effective internal control system. According to Jensen (2005), the integration of layers of supervision is necessary to prevent managers from opportunistic behavior, including fraud.

Furthermore, the differences of audit committee practices in different companies can explain why the frequency of audit committee meetings does not significantly affect FSF. Each company has different operational standards and procedures regarding audit committee meetings. Turley and Zaman (2007) found that meeting frequency is only effective if accompanied by deep involvement and the capacity to act quickly on problems found. Therefore, the audit committee needs to ensure that their meetings also focus on monitoring financial risks and specific red flags related to potential fraud. Companies should focus more on improving the competence and independence of the audit committee rather than just increasing the number of meetings.

The Moderating Effect of Audit Committee Meeting on the Effect of Overvalued Equity on Financial Statement Fraud

The results of the hypothesis test show that the interaction between OVEQ and AUDCOM as an effective monitoring proxy has a significance value of 0.013, which is smaller than probablity value 0.05. Thus, hypotheses 3 is accepted, which means that there is a significant influence of AUDCOM's moderation interaction with OVEQ on the occurrence of Financial Statement Fraud. An influence coefficient of -0.025 indicates that an increase in the interaction between AUDCOM and OVEQ will decrease the potential of FSF by 0.025 times.

The finding of this study indicates that an audit committee that functions as an effective oversight mechanism can reduce FSF risks caused by overvalued equity. As a moderation variable, AUDCOM strengthens internal monitoring in an overvaluation situation by conducting coordination and monitoring meetings. Those meetings act an as effective control against manager's actions to conduct FSF . Agency theory argued that audit committee oversight function aims to lessen the conflicts of interest level between principals and managers by monitoring the company's financial policies and practices. In this case, the interaction between AUDCOM and OVEQ serves as an additional barrier that can constrain the manager's opportunistic behavior.

These findings support previous literature that states that an effective audit committee can serve as a hedge against FSF risks. Beasley et al. (2000) showed that an active and independent audit committee is able to identify early signals of fraud risk, in this case especially for companies with high market pressure as is the case with overvalued companies. Thus, an optimally functioning audit committee can reduce the negative influence of overvaluation on the FSF. This finding is also in line with Abbott et al. (2000) who found that the frequency and quality of audit committee meetings are negatively related to fraud risk. In this case, the role of the audit committee as an effective supervisor provides assurance for shareholders that the financial statements will be closely monitored, especially in the condition of company's equty overvalution.

Agency theory explains that effective monitoring by audit committees can mitigate the impact of overvaluation which increases fraud risk. Jensen (2005) stated that stock overvaluation can stimulate managers to present better financial statements as effort to maintain a positive market perception. However, an active supervision from audit committee will lowers the likelihood of FSF. Turley and Zaman (2007) also highlighted that in situations where companies face great pressure to meet market expectations, a well-functioning audit committee provides a strong role in ensuring transparency and accountability. In this study, the negative interaction between AUDCOM and OVEQ towards the FSF indicates that an effective audit committee is an important control to limit the potential occurence of FSF in the case of overvaluation.

A negative coefficient of -0.025 ishows that the audit committee's supervision not only functions as an independent supervisor but also as controller in the case of overvalued firms. Klein (2002) stated audit committee will function more effectively when it is actively involved in risk oversight and financial reporting policies. In cases of overvaluation, the audit committee should actively be involved in identifying potential problems earlier, thereby reducing the tendency to FSF. Cohen et al. (2004) stated that a proactive approach in audit committees helps ensure that key risks are identified early, which may allow companies to respond quickly and reduce the potential for fraud. These finding shows that optimally functioning audit committee can balance market pressures and improve the quality of financial statements.

The Effect of Audit Tenure on Financial Statement Fraud

The results of the hypothesis test show that TENURE has a significance value of 0.737, which is higher than the significance level of 0.05. This means that the hypothesis 4 is rejected; there is no significant influence between the length of the external auditor's tenure on the potential of FSF in the sample of companies studied. This result means that the auditor tenure does not significantly affect the occurrence of FSF.

Previous research shows that auditor tenure has a complex influence on audit quality which does not necessarily directly affect the potential for fraud. Myers et al. (2003) stated that auditors with longer tenures displays deeper understanding of their clients' businesses, which allow auditors to be more effective in detecting red flags and fraud risks. Similarly, Johnson et al. (2002) found that a long-term relationship between auditors and clients can weaken auditor skepticism. However, relevant to this research result, auditor tenure does not automatically increase or decrease the risk of fraud without considering other contexts, such as internal corporate oversight. The study result shows that time duration of auditor-client relationship is not a significant factor increasing the risk of FSF. Carey and Simnett (2006) found that auditors who have established long-standing relationships with clients may experience reduced independence in some cases. However longer audit tenure does not automatically impact in an increased risk of FSF since auditors can maintain their independence through applying professional standards and codes of conduct. Therefore, these findings suggest that auditor tenure may not be significant factor without the support of strong internal oversight. Geiger and Raghunandan (2002) showed that the influence of tenure on FSF risk tends to be stronger in companies with weak internal oversight. In this context, if the company has a solid internal control system, the risk of fraud can be reduced regardless of the duration length of auditor and client relationship.

This research is also in line with the view that audit quality is more important than just the length of the auditor's relationship with the client. Chen et al. (2008) argue that the influence of tenure on audit quality is more closely related to the professionalism of auditors and the implementation of appropriate audit procedures. Auditors who are strictly bound to auditing standards will maintain audit quality, so that the influence of tenure on fraud becomes less factors in the context of high professionalism. This result can also be influenced by policy differences regarding auditor rotation among the companies in the sample. Blouin et al. (2007) showed that auditor rotation helps maintain auditor independence since the length of the relationship is not a critical factor in the condition of lacking supportive control policy. Thus, the results of this

study imply that the duration of the auditor's relationship with the client is not always a key indicator in assessing the risk of FSF. Companies may need to focus more on the quality and independence aspects of the audit rather than simply considering the duration of the auditor relationship. To maintain the objectivity and quality of supervision, companies are advised to emphasize on periodic training and appropriate rotations, while regulators can consider specific auditor rotation policies to maintain independence without strictly restricting tenure.

The Moderating Effect of Audit Tenure on the Effect of Overvalued Equity on Financial Statement Fraud

The results of the hypothesis test show that the interaction between OVEQ and TENURE as a moderation variable on the potential of FSF has a significance value of 0.799, which is greater than the sign value. 0.05. Thus, Hypothesis 5 is rejected, which means that there is no significant effect of the interaction between TENURE and OVEQ on the potential of FSF. These findings suggest that the duration of the external auditor's engagement with the client does not moderate the influence of OVEQ on the potential FSF. This means that the length of the auditor's tenure does not strengthen or weaken the relationship between OVEQ and FSF, so that in the condition of overvaluation, auditor tenure does not make any significant additional contribution in influencing the potential for fraud in financial statements.

The results of this study support several previous studies that state that the duration of the auditor-client relationship does not automatically increase or decrease the risk of fraud. Myers et al. (2003) argued that longer tenure auditors display better understanding of the company. However, the study result shows that tenure is not necessarily effective in identifying fraud. A better understanding of the company's operations can be offset by a decrease in skepticism due to longer attachments, so that the auditor's tenure does not act as an additional controlling factor in the case of overvaluation. This research result is congruence with Johnson et al. (2002) that found the effect of tenure on audit quality is complex. In many cases, a long-term relationship between the auditor and the client does not guarantee better or worse oversight, especially if the auditor maintains their professional standards and independence.

In addition, these results reflect the limitations of tenure in functioning as an effective supervisor in overvaluation situations, However, the results of this study show that the duration of the auditor relationship does not play a significant role as a controller in the overvaluation situation. Carey and Simnett (2006) found that although auditors have a long relationship with clients, this does not necessarily correlate with an increase or decrease in fraud risk. The independence of auditors depends more on professionalism and code of ethics, not on the length of the auditor's relationship with the client. In addition, Blouin et al. (2007) statet that auditor tenure will affect auditor's independence only when there is no strong policy of rotation and oversight mechanism. The absence of a significant influence of TENURE's interaction with OVEQ shows that auditor tenure is not an effective factor in controlling the risk of fraud in a case of equity overvaluation. Furthermore, Chen et al. (2008) stated that auditor tenure does not necessarily affect the quality of supervision in terms of potential fraud. In contrast, the effectiveness of supervision depends more on the quality of audit procedures and the auditor's ability to implement strict supervision standards. Without a comprehensive and independent procedures, a longer auditor tenure does not guarantee a reduction in fraud risk, even in an overvaluation situation.

Therefore, companies must ensure that auditors maintain high professionalism and audit quality, regardless of the duration of the relationship. This supports the view that effective oversight is not only determined by the length of the auditor's relationship, but rather by the independence and competence that the auditor brings in each audit. Therefore, research findings show that companies should focus more on audit quality as important consideration in retaining auditors with long tenures. Regulators should consider policies that encourage auditors to conduct auditor objectively and professionally with clear guidance of auditor rotation in order to maintain auditors' independence.

CONCLUSION

The results of this study reveal that overvalued equity is proven to affect the occurrence of FSF. The research results also show the effectiveness of the audit committee's role in reducing the influence of overvalued equity on the occurrence of FSF. Furthermore, audit tenure does not have a significant influence on the occurence of FSF and also does not have moderating influence in the influence of overvalued equity on the occurrence of FSF. Based on these findings, this study concludes that effective monitoring through the audit committee and the role of professional auditors are very important to maintain the integrity of financial statements, especially in conditions of overvaluation. Furthermore, the result implicates that the quality of company's good corporate governance and reporting practice determine whether overvaluation pressures can develop into financial statement fraud. Moreover, regulators should consider strengthening policies related to companies internal and external supervision, especially in a state of overvaluation which increase the potential for FSF.

Several suggestions for future researchers are as folows: first, examine other moderating variables such as the quality of internal audits, the level of independence of the audit committee, or the corporate governance culture. Further research on those variables will provide a deeper understanding on factors that can strengthen or weaken the risk of financial statement fraud in the case of overvalution. Second, the next researchers can consider conducting further research using a wider sample using and across industries with varying levels of fraud and governance risk to produce more comprehensive insight. Third, the next researcher may apply qualitative approach to identify other factors, such as the dynamic, quality and depth of matters discussed in audit committee meetings, that may affect the effectiveness of oversight in the prevention of FSF.

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