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# Audit Quality, the Fraud Diamond, and Fraudulent Financial Reporting: The Moderating Role of the Audit Committee in Indonesia's Consumer Sector

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**Abstract**

**Background:** Fraudulent financial reporting is relatively infrequent but disproportionately costly, and recent fraud evidence continues to show the importance of detecting material misstatement risk (Association of Certified Fraud Examiners). Indonesian consumer cyclicals and non-cyclicals are analytically relevant because intense competition, performance targets, macroeconomic exposure, and long distribution chains can increase reporting pressure.
**Objective:** This study tests the effects of audit quality and the fraud diamond on fraudulent financial reporting risk and examines audit committee activity as a moderator.
**Methods:** The sampling frame comprised Indonesia Stock Exchange firms classified as consumer cyclicals or consumer non-cyclicals during 2020–2024. Purposive screening produced 100 eligible firms and 500 balanced firm-year observations. Panel regression selected the Common Effect Model, followed by mean-centered moderated regression and diagnostic tests.
**Results:** Audit quality is negatively associated with fraudulent financial reporting risk, whereas financial target and external pressure are positively associated with it. The other fraud-diamond proxies are not significant. Audit committee activity strengthens the protective association of audit quality and weakens the positive association of financial target but does not moderate the remaining relationships.
**Conclusion:** Pressure-related factors are the dominant significant fraud-diamond signals in this sample, while the audit committee operates as a selective complement to external audit rather than a universal safeguard.

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## INTRODUCTION

Financial statements are the principal channel through which a company communicates its financial position, performance, and cash flows to the parties that rely on them for economic decisions. Because investors, creditors, regulators, and internal management all draw on the same reports, the credibility of those reports is a public good rather than a private convenience. When management deliberately misstates the numbers to portray a healthier condition than actually exists, the practice becomes fraudulent financial reporting, and the damage extends well beyond the individual firm. The collapse of public trust that followed the manipulation at PT Garuda Indonesia (Persero) Tbk, which involved state losses of around IDR 8.8 trillion, illustrates how a single case can unsettle confidence in an entire capital market (News, 2022).

The Garuda Indonesia case is used here as an illustration of the capital-market consequences of reporting manipulation, not as sector-specific evidence. The consumer-sector focus instead follows from the combination of intense sales competition, sensitivity to macroeconomic conditions, demanding performance targets, and complex distribution chains that can increase managerial pressure over reported results (Khamainy et al., 2022; Pranoto & Putra, 2025).

Although fraudulent financial reporting represents a smaller share of occupational fraud cases than asset misappropriation or corruption, ACFE evidence shows that it generates disproportionately severe losses, including in the most recent global reporting cycle (Examiners, 2020, 2024). Indonesian evidence likewise remains heterogeneous across sectors and fraud proxies, which strengthens the need for models that distinguish specific risk channels rather than assuming uniform effects (Achmad et al., 2022; Khamainy et al., 2022; Pranoto & Putra, 2025).

Individual motivation, however, operates inside an institutional setting, and the quality of external audit is one of the strongest institutional checks on reporting integrity. Auditors from larger and better-resourced firms are generally credited with sharper detection ability and greater willingness to report what they find, which allows high-quality audits to serve as an early barrier against misstatement (DeAngelo, 1981; Lennox & Pittman, 2010; Yousefi et al., 2024). Yet external audit does not worak in isolation. Its effectiveness depends on the wider governance environment, and in particular on the audit committee, which under Indonesian regulation is charged with overseeing the reporting process and the work of the external auditor (Keuangan, 2015; Ramanda et al., 2024). A committee that meets often and engages substantively can reinforce the auditor's findings and keep management from ignoring them, which positions the committee as a plausible moderator of both audit quality and the fraud diamond.

Despite a large body of work on the fraud diamond and on audit quality, the two streams are seldom examined within a single model, and the moderating role of the audit committee across all four fraud elements has received limited attention, especially in the consumer sector. Consumer cyclicals and consumer non-cyclicals are worth isolating precisely because they combine high competitive intensity, sensitivity to macroeconomic swings, and demanding sales targets with long distribution chains, a mix that raises the temptation to manage reported performance. This intersection is where the present study locates its contribution.

Prior empirical findings are also mixed: some studies identify pressure-related proxies as significant predictors of misstatement, whereas other fraud-diamond proxies vary in significance across sectors and operationalizations (Achmad et al., 2022; Khamainy et al., 2022; Pranoto & Putra, 2025). Earlier work also commonly treats audit quality, fraud-diamond elements, and audit-committee oversight in separate specifications. The present model therefore addresses both an empirical gap (mixed proxy performance) and a governance gap (the limited evidence on whether internal oversight changes the effectiveness of external audit and fraud-risk signals within one consumer-sector model).

The analysis is grounded in agency theory, which frames fraudulent reporting as a manifestation of the conflict between owners and managers under information asymmetry (Jensen, 2022; Jensen & Meckling, 1976). Managers hold an informational advantage that can be exploited through misleading disclosure, and monitoring mechanisms such as external audit and the audit committee exist to raise the cost of such behavior. Reading audit quality and the fraud diamond through this theoretical frame clarifies why some monitoring arrangements should complement one another rather than act as substitutes.

The novelty of this study lies in three choices that jointly distinguish it from prior work. First, audit quality is captured through a composite Audit Quality Metric Score that combines the competence dimensions of auditor size, industry specialization, and tenure with the independence dimensions of client importance and reporting quality, rather than the single Big Four indicator that dominates earlier research and misses the multidimensional nature of the construct (Helia Khairani et al., 2025; Herusetya, 2012). Second, audit quality and the seven fraud diamond proxies are estimated in one integrated model, allowing their relative weight to be compared directly. Third, audit committee activity is introduced as a moderator across the whole set of relationships, which tests whether governance mechanisms reinforce one another as agency theory predicts. The theoretical contribution goes beyond measurement: by estimating external

audit, fraud-diamond conditions, and audit-committee activity jointly, the model tests an agency-theory proposition that monitoring mechanisms can be complementary, while also showing that the fraud diamond may be asymmetric across elements rather than uniformly predictive.

Accordingly, the study pursues four objectives. It examines whether audit quality reduces fraudulent financial reporting; whether the elements of the fraud diamond increase it; whether audit committee activity moderates the influence of audit quality on fraudulent financial reporting; and whether audit committee activity moderates the influence of the fraud diamond on fraudulent financial reporting. By addressing these questions, the study offers evidence that can help management design internal controls, guide auditors toward the risk factors that matter most, and inform regulators seeking to strengthen the substance rather than the form of corporate oversight in a strategically important sector. Theoretically, this design clarifies how agency-based monitoring interacts with pressure, opportunity, rationalization, and capability conditions. Practically, it identifies the risk signals on which management, auditors, audit committees, investors, and regulators can concentrate limited monitoring resources.

## METHOD

This study used a quantitative explanatory panel design to test theory-derived associations among audit quality, fraud-diamond proxies, audit-committee activity, and fraudulent financial reporting risk. Panel data are appropriate because the design follows the same firms across 2020–2024, allowing cross-sectional and temporal information to be analyzed jointly while the specification tests determine whether pooled, fixed, or random effects best fit the data. The operational population is all Indonesia Stock Exchange firms classified as consumer cyclicals or consumer non-cyclicals during the study period. These sectors were selected because their exposure to competitive sales targets, macroeconomic volatility, financing pressure, and extended distribution networks provides a theoretically relevant setting for reporting-risk analysis. Data were drawn from audited financial statements, annual reports, and corporate-governance reports published through the exchange and were cross-checked for completeness.

The sampling frame was screened using purposive criteria aligned with the research objective: membership in the two consumer sectors; continuous availability of complete annual and financial reports for 2020–2024; absence of delisting, merger, acquisition, or major ownership change during the observation period; and complete data for every modeled variable. Applying these criteria produced 100 eligible firms observed for five years, or 500 firm-year observations in a balanced panel. The available study file does not retain a separate pre-screening company count; therefore, the manuscript reports the verifiable sampling frame, screening rules, and final eligible sample without inferring an unsupported initial total.

The dependent variable, fraudulent financial reporting, was measured with the Dechow F-Score, which combines accrual quality and financial performance into a single indicator of misstatement Accordingly, every reference to “fraudulent financial reporting” in the empirical results was interpreted as statistical indication or risk of material misstatement, not as proof of fraud in a legal or adjudicative sense.risk; higher scores signal a greater likelihood of intentional misstatement rather than a legal verdict of fraud (Dechow et al., 2011; Vuko et al., 2026) . Audit quality was measured through the composite Audit Quality Metric Score, and the seven fraud diamond proxies were operationalized as return on assets for financial target, the change in total assets for financial stability, leverage for external pressure, the change in the receivables-to-sales ratio for nature of industry, the proportion of non-independent commissioners for ineffective monitoring, and dummy variables for change in auditor and change of directors. The audit committee, the moderating variable, was measured by the number of committee meetings held in a year, consistent with the periodic-meeting requirement of POJK No. 55/POJK.04/2015. Table 1 summarizes the operational measures and the predicted direction of each variable.

**Table 1**
*Operational Definition and Measurement of Variables*

| Code | Variable | Measurement | Predicted sign |
|---|---|---|---|
| Y | *Fraudulent financial reporting* | *F-Score = RSST Accruals + Financial Performance* | *Higher = higher FFR* |
| X1 | *Audit quality* | *AQMS = BIG4 + SPCL + TENURE + CI + RQA (range 0-5)* | *Negative* |
| X2 | *Financial target* | *ROA = net income after tax / total assets* | *Positive* |
| X3 | *Financial stability* | *ACHANGE = (Total assets_t - Total assets_t-1) / Total assets_t-1* | *Positive* |
| X4 | *External pressure* | *LEV = total liabilities / total assets* | *Positive* |
| X5 | *Nature of industry* | *(Receivables_t / Sales_t) - (Receivables_t-1 / Sales_t-1)* | *Positive* |
| X6 | *Ineffective monitoring* | *IMON = 1 - (independent commissioners / board of commissioners)* | *Positive* |
| X7 | *Change in auditor* | *Dummy: 1 if external auditor/firm changed, 0 otherwise* | *Positive* |
| X8 | *Change of directors* | *Dummy: 1 if a board of directors change occurred, 0 otherwise* | *Positive* |
| Z | Audit committee | ACMEET = number of audit committee meetings per year | Moderator |

*Source: Adapted by the authors from prior studies*

Hypotheses were tested with panel data regression, which suits data that combine multiple firms observed over several periods. The estimation framework was chosen through a sequence of specification tests: the Chow test to compare the Common Effect and Fixed Effect Models, the Hausman test to compare the Fixed and Random Effect Models Hausman (1978) and Davidson (2026) , and the Breusch-Pagan Lagrange Multiplier test to compare the Common and Random Effect Models (Breusch & Pagan, 1980). Because the selected model was estimated by ordinary least squares, the classical assumptions of normality, multicollinearity, heteroskedasticity, and autocorrelation were examined, and cross-section dependence was assessed to confirm the reliability of the estimates.

The relationships were estimated with a moderated regression analysis in which the audit committee interacts with each independent variable, so that the main effects of audit quality and the fraud diamond and their moderated effects are obtained within a single specification. To limit multicollinearity between the main variables and their interaction terms, all independent and moderating variables were mean-centered before the interaction terms were formed (Adhikari, 2022; Aiken & West, 1991). Because the study relies exclusively on published secondary data and involves no human or animal participants, no ethical approval was required.

## RESULTS AND DISCUSSION

### Result

#### *Sample selection and data structure*

The purposive sampling procedure produced a balanced panel of 100 firms across five years, giving 500 firm-year observations. The balanced structure ensures that every firm contributes an equal number of periods, which supports efficient estimation and avoids the complications of missing data. Table 2 summarizes the composition of the sample.

**Table 2**

*Sample and Data Structure*

| Description | Amount |
|---|---|
| Observation period | 2020-2024 |
| Number of sample firms | 100 firms |
| Number of observation years | 5 years |
| Total panel observations | 500 observations |
| Data structure | Balanced panel |

*Source: Authors' compilation from IDX data (2026)*

#### *Descriptive statistics*

Table 3 presents the descriptive statistics for all variables. Fraudulent financial reporting has a mean F-Score of 0.4897 with a standard deviation of 0.1508, indicating variation in misstatement risk across firms. Audit quality averages 2.5820 on the 0–5 composite scale with a median of 3. Because this value lies close to the scale midpoint rather than either extreme, it is interpreted descriptively as a moderate level of simultaneous attainment across the measured competence and independence dimensions, not as a formal regulatory grade. Financial target (ROA) averages 0.0623, external pressure (leverage) averages 0.4489, and ineffective monitoring averages 0.5698. About 14.40% of observations experienced an auditor change and 32.20% a change of directors, while audit committees met about seven times per year on average.

**Table 3**

*Descriptive Statistics*

| Variable | Mean | Median | Maximum | Minimum | Std. Dev. |
|---|---|---|---|---|---|
| FFR | 0.4897 | 0.4881 | 1.0801 | 0.0327 | 0.1508 |
| AQMS | 2.5820 | 3.0000 | 5.0000 | 0.0000 | 1.2879 |
| ROA | 0.0623 | 0.0608 | 0.2332 | -0.1051 | 0.0582 |
| ACHANGE | 0.0503 | 0.0492 | 0.3732 | -0.2860 | 0.1022 |
| LEV | 0.4489 | 0.4538 | 0.9044 | 0.0600 | 0.1527 |
| RECEIVABLE | 0.0038 | 0.0030 | 0.1117 | -0.0974 | 0.0329 |
| IMON | 0.5698 | 0.5734 | 0.8000 | 0.2733 | 0.0941 |
| AUDCHANGE | 0.1440 | 0.0000 | 1.0000 | 0.0000 | 0.3514 |
| DCHANGE | 0.3220 | 0.0000 | 1.0000 | 0.0000 | 0.4677 |
| ACMEET | 7.0480 | 7.0000 | 12.0000 | 4.0000 | 2.0732 |

*Notes: n = 500. FFR: fraudulent financial reporting; AQMS: audit quality; ROA: financial target; ACHANGE: financial stability; LEV: external pressure; RECEIVABLE: nature of industry; IMON: ineffective monitoring; AUDCHANGE: change in auditor; DCHANGE: change of directors; ACMEET: audit committee.*

*Source: EViews output (2026)*

#### *Pearson correlation*

Table 4 reports the Pearson correlation matrix. The strongest association among the independent variables is between ROA and ACHANGE at 0.2215, well below the 0.80 threshold that would signal multicollinearity. Fraudulent financial reporting is moderately and negatively correlated with audit quality at -0.4556 and positively correlated with financial target and external pressure at 0.1986 and 0.2550. The remaining variables show weak bivariate ties with fraudulent financial reporting, which motivates the multivariate testing that follows. These

bivariate coefficients are descriptive associations only and are not interpreted causally; hypothesis conclusions are based on the multivariate panel specification reported in Table 4.

**Table 4**
*Pearson Correlation Matrix*

| ` | FFR | AQMS | ROA | ACHG | LEV | RECV | IMON | AUDC | DCHG | ACMT |
|---|---|---|---|---|---|---|---|---|---|---|
| FFR | 1.0000 | | | | | | | | | |
| AQMS | -0.4556 | 1.0000 | | | | | | | | |
| ROA | 0.1986 | 0.0195 | 1.0000 | | | | | | | |
| ACHANGE | -0.0290 | -0.0120 | 0.2215 | 1.0000 | | | | | | |
| LEV | 0.2550 | -0.0087 | -0.0415 | -0.1341 | 1.0000 | | | | | |
| RECEIVABLE | -0.0035 | 0.0340 | -0.0254 | -0.0736 | -0.0145 | 1.0000 | | | | |
| IMON | 0.0465 | 0.0096 | -0.0224 | 0.0435 | 0.0054 | -0.0568 | 1.0000 | | | |
| AUDCHANGE | 0.0842 | -0.0793 | 0.0202 | 0.0520 | -0.0080 | 0.0303 | 0.0042 | 1.0000 | | |
| DCHANGE | 0.0065 | 0.0376 | -0.0158 | 0.0316 | 0.0249 | -0.0071 | 0.0434 | -0.0144 | 1.0000 | |
| ACMEET | 0.0136 | -0.0142 | 0.0601 | 0.0102 | 0.0844 | 0.0453 | -0.0715 | -0.0040 | 0.0336 | 1.0000 |

*Notes: ACHG = ACHANGE; RECV = RECEIVABLE; AUDC = AUDCHANGE; DCHG = DCHANGE; ACMT = ACMEET. Source: EViews output (2026)*

***Panel model selection and classical assumption tests***

The Chow, Hausman, and Lagrange Multiplier tests were applied to the moderated specification to select the estimation framework. The Chow test returned a cross-section F probability of 0.3109, the Hausman test a probability of 0.2477, and the Breusch-Pagan LM test a cross-section probability of 0.9772; because these probabilities exceed the five percent level, the Common Effect Model was chosen Davidson (2026), Hausman (1978) and Breusch and Pagan (1980). Since the model is estimated by ordinary least squares on mean-centered variables, the classical assumptions were verified. The Jarque-Bera probability of 0.3256 confirms normal residuals, the highest centered VIF of 1.1912 rules out multicollinearity, the Glejser test indicates homoskedastic residuals, and a Durbin-Watson statistic of 1.9649 indicates the absence of autocorrelation. Table 5 summarizes these diagnostics.

**Table 5**
*Model Selection and Classical Assumption Tests*

| Test | Result | Conclusion |
|---|---|---|
| Chow (cross-section F, prob.) | 0.3109 | Common Effect Model |
| Hausman (cross-section random, prob.) | 0.2477 | Random over Fixed |
| Breusch-Pagan LM (cross-section, prob.) | 0.9772 | Common Effect Model |
| Selected model | Common Effect Model (centered) | - |
| Normality (Jarque-Bera prob.) | 0.3256 | Residuals normal |
| Multicollinearity (max centered VIF) | 1.1912 | No multicollinearity |
| Heteroskedasticity (Glejser prob. F) | 0.3251 | Homoskedastic |
| Autocorrelation (Durbin-Watson) | 1.9649 | No autocorrelation |

*Source: EViews output (2026)*

***Moderated regression analysis***

Table 6 reports the mean-centered moderated regression, which yields the main effects and the moderated effects within a single specification. Among the main effects, audit quality carries a negative coefficient of -0.0545 (prob. 0.0000), supporting H1, while financial target and external pressure carry positive coefficients of 0.5705 and 0.2538 (both prob. 0.0000), supporting H2 and H4; financial stability, nature of industry, ineffective monitoring, change in auditor, and change of directors are not significant, so H3, H5, H6, H7, and H8 are not supported. Turning to the interactions, audit quality with audit committee activity is negative and significant at -0.0079

(prob. 0.0004), supporting H9, and financial target with audit committee activity is negative and significant at -0.0937 (prob. 0.0435), supporting H10; the remaining interaction terms are not significant, so H11 through H16 are not supported. The stand-alone coefficient of the audit committee is not significant (prob. 0.7405), which identifies it as a pure moderator (Baron & Kenny, 1986; Söderlund, 2023). The model is jointly significant, with an F-statistic of 15.5834 (prob. 0.0000) and an adjusted R-squared of 0.3319.

**Table 6**
*Moderated Regression Results (Common Effect Model, Mean-Centered)*

| Variable | Sign | Coefficient | t-Statistic | Prob. | Decision |
|---|---|---|---|---|---|
| Constant | | 0.4900 | 88.0469 | 0.0000 | - |
| AQMS_C | - | -0.0545 | -12.4915 | 0.0000*** | H1 supported |
| ROA_C | + | 0.5705 | 5.6954 | 0.0000*** | H2 supported |
| ACHANGE_C | + | -0.0641 | -1.1333 | 0.2576 | H3 not supported |
| LEV_C | + | 0.2538 | 6.8021 | 0.0000*** | H4 supported |
| RECEIVABLE_C | + | 0.1495 | 0.8720 | 0.3836 | H5 not supported |
| IMON_C | + | 0.0834 | 1.3767 | 0.1692 | H6 not supported |
| AUDCHANGE_C | + | 0.0218 | 1.3773 | 0.1691 | H7 not supported |
| DCHANGE_C | + | 0.0049 | 0.4101 | 0.6819 | H8 not supported |
| ACMEET_C | | -0.0009 | -0.3314 | 0.7405 | - |
| AQMS_C x ACMEET_C | - | -0.0079 | -3.5365 | 0.0004*** | H9 supported |
| ROA_C x ACMEET_C | - | -0.0937 | -2.0241 | 0.0435** | H10 supported |
| ACHANGE_C x ACMEET_C | - | 0.0070 | 0.2650 | 0.7911 | H11 not supported |
| LEV_C x ACMEET_C | - | -0.0203 | -1.1494 | 0.2510 | H12 not supported |
| RECEIVABLE_C x ACMEET_C | - | -0.0231 | -0.2671 | 0.7895 | H13 not supported |
| IMON_C x ACMEET_C | - | -0.0449 | -1.5919 | 0.1121 | H14 not supported |
| AUDCHANGE_C x ACMEET_C | - | -0.0054 | -0.6598 | 0.5097 | H15 not supported |
| DCHANGE_C x ACMEET_C | - | 0.0023 | 0.3983 | 0.6906 | H16 not supported |
| R-squared | | 0.3547 | | | |
| Adj. R-squared | | 0.3319 | | | |
| F-statistic | | 15.5834 | | | |
| Prob(F) | | | | 0.0000*** | |
| N_obs | | 500 | | | |

*Notes: All independent and moderating variables are mean-centered; _C denotes a centered variable; ***p<0.01, **p<0.05, *p<0.10.*
*Source: EViews output (2026)*

**Discussion**

The evidence tells a coherent story about where reporting risk concentrates in the consumer sector and how governance can contain it. Of the eight direct hypotheses, three are supported, and of the eight moderation hypotheses, two are supported. The pattern that emerges is that pressure, rather than opportunity, rationalization, or capability, is the dominant driver of misstatement in these firms, and that the audit committee matters most where it can act on the reporting process itself.

Audit quality reduces fraudulent financial reporting, which confirms that competent and independent external audit constrains the room managers have to manipulate the accounts. This

finding fits agency theory, in which audit is one of the mechanisms that lower the monitoring costs arising from the conflict between owners and manager (Jensen, 2022; Jensen & Meckling, 1976). An auditor able to detect violations in the client's accounting system and willing to report them narrows the information advantage that management could otherwise exploit (DeAngelo, 1981; Jensen, 2022). The result echoes evidence that firms audited by higher-quality auditors are less likely to engage in accounting fraud Lennox and Pittman (2010) and Iman (2024) that audit quality is associated with better reporting quality (DeFond & Zhang, 2014; Litlabø et al., 2026). The practical message is that selecting an auditor is a governance decision that shapes the credibility of the financial statements, not a mere compliance formality.

In the mean-centered moderated model, the audit-quality coefficient of −0.0545 is the conditional association when audit-committee meeting frequency is at its sample mean. Holding the other predictors constant, a one-point increase in the 0–5 Audit Quality Metric Score is associated with a 0.0545 lower F-Score at that reference level. This interpretation adds substantive scale to the statistical significance while recognizing that the marginal effect changes with audit-committee activity because the interaction term is significant.

Financial target increases fraudulent financial reporting, indicating that the drive to meet profit expectations can push management toward embellishing results when genuine performance falls short. This is consistent with the pressure element of the fraud diamond, where fraud begins with a felt strain that the actor seeks to relieve Wolfe & Hermanson (2004) and Made et al. (2023), and with the agency view that performance-linked evaluation can breed dysfunctional behavior when oversight is weak (Jensen, 2022; Jensen & Meckling, 1976). The finding aligns with earlier work showing that financial target is a relevant predictor of misstatement, including in Indonesian settings (Khamainy et al., 2022; Yesiariani & Rahayu, 2017). Ambitious profit targets set without a corresponding strengthening of internal control effectively plant the seeds of reporting risk inside the organization.

External pressure likewise increases fraudulent financial reporting, showing that firms financed heavily by debt face a temptation to present a picture that reassures creditors even when the underlying condition has weakened. In agency terms, the relationship with creditors adds a further layer of conflict on top of the owner-manager relationship, and the financial statements become the easiest object to reshape when real capacity declines (Jensen, 2022; Jensen & Meckling, 1976; Skousen et al., 2009). The result is in line with prior evidence linking external pressure to misstatement Khamainy et al. (2022) and Haqq and Budiwitjaksono (2019) carries a clear warning that a debt-heavy capital structure is not only a solvency concern but also an integrity concern that creditors and investors should watch closely.

The concentration of significant effects in financial target and external pressure is theoretically plausible in consumer businesses because earnings expectations and financing constraints operate continuously and are directly visible to managers, whereas opportunity, rationalization, and capability are represented here by narrower accounting or governance proxies. In competitive consumer markets, demand volatility, margin pressure, and debt-service expectations can make performance and financing pressures more immediate than relatively stable board composition or routine changes in auditors and directors. The finding therefore supports an asymmetric reading of the fraud diamond in which the salience of each element depends on sector conditions and measurement choices, consistent with mixed Indonesian evidence across alternative fraud models and sectors (Achmad et al., 2022; Khamainy et al., 2022; Pranoto & Putra, 2025).

The remaining fraud diamond elements, financial stability, nature of industry, ineffective monitoring, change in auditor, and change of directors, do not significantly affect fraudulent financial reporting in this sample. Several explanations follow from the character of the sector and the proxies used. Asset growth among consumer firms was moderate over the period, so the pressure to disguise instability was not strong enough to trigger manipulation, a result consistent with studies that found no significant effect of financial stability (Burlacu et al., 2025; Situngkir & Triyanto, 2020). Receivables changes were small and stable, which limits the appeal of receivables as a vehicle for revenue manipulation in a sector where sales turn over quickly. The proportion of independent commissioners is largely a regulatory floor, so it varies too little across firms to capture real differences in oversight quality, and the effectiveness of monitoring depends more

on competence and engagement than on board composition alone (Beasley, 1996; Ebaid, 2023). Auditor changes in the sample were mostly driven by rotation rules and cost considerations rather than by concealment, and director changes tended to reflect routine renewal, so neither proxy captured the psychological substance of rationalization or capability that the fraud diamond describes. These outcomes reinforce the view that the pressure elements carry more weight than opportunity, rationalization, and capability in explaining misstatement here.

Turning to the moderation results, the audit committee strengthens the mitigating effect of audit quality. This shows that external audit and the audit committee complement rather than substitute for one another: a committee that meets frequently has more occasions to discuss audit findings, follow up on risk areas, and ensure that recommendations are not shelved by management. The result enriches the agency perspective by showing that the effectiveness of one monitoring mechanism depends on the strength of another within a single governance structure Jensen and Meckling (1976), Jensen (2022) and Beasley (1996), and it aligns with evidence that active audit committees reduce aggressive reporting Abbott et al., (2000), Apristiana and Utomo, (2025) and Bedard et al., (2004) and with Indonesian studies treating the committee as a moderator of fraud risk (Indriyani & Suryandari, 2021; Nikmah & Arjoen, 2023; Wailan'An et al., 2019).

The audit committee also weakens the effect of financial target on fraudulent financial reporting, which demonstrates that committee oversight can interrupt the path from profit pressure to manipulation. A committee that regularly scrutinizes the reasonableness of reported performance and questions the accounting policies behind unusual results raises the cost of opportunistic behavior, so that the temptation created by demanding targets is less likely to translate into misstatement (Indiraswari et al., 2025; Persons, 2005; Sugita, 2018). Challenging targets can therefore coexist with reporting integrity as long as the committee's monitoring function is genuinely active.

The practical implication is specific rather than generic. Companies should align target-setting with credible internal controls and ensure that audit committees actively review unusual performance patterns and external-audit findings. External auditors can treat aggressive profitability targets and leverage as priority risk signals, while regulators can emphasize audit-committee competence and substantive follow-up rather than meeting frequency alone. For investors and creditors, the results support reading high targets and financing pressure together with governance quality when evaluating reporting risk.

By contrast, the committee does not moderate the other relationships. Where the underlying relationship is itself weak, as with financial stability, nature of industry, change in auditor, and change of directors, there is no meaningful link for the committee to alter. Where the relationship is strong but rooted outside the reporting process, as with external pressure that originates in the capital structure, the committee's meeting-based oversight cannot reach the source of the strain, since financing decisions belong to the directors. And because the committee is formed by and accountable to the board of commissioners, its activity cannot compensate for weak board-level monitoring. The overall picture is that the audit committee is a selective safeguard: powerful where it touches the reporting process and the work of the external auditor, but limited against risks that arise from capital structure, board composition, and organizational dynamics beyond its reach.

These findings speak to an international audience as well as a local one. They show that a multidimensional measure of audit quality combined with an integrated fraud-diamond model yields a more discriminating account of misstatement risk than single-indicator approaches, and that the complementarity of governance mechanisms is context-dependent rather than automatic. For emerging markets where consumer sectors are large and competitive, the study suggests that anti-fraud effort is best concentrated on pressure factors and on the reporting-facing components of governance, because that is where monitoring demonstrably bites.

## CONCLUSION

This study set out to explain fraudulent financial reporting in Indonesian consumer cyclicals and consumer non-cyclicals firms through audit quality and the fraud diamond, and to test the audit committee as a moderator. The evidence shows that reporting risk in this sector is driven mainly by pressure. High audit quality lowers the indication of misstatement, while the pressure to meet profit targets and the strain of external financing raise it; the opportunity, rationalization, and capability elements do not exert a significant influence. The audit committee proves to be a pure moderator that strengthens the protective effect of audit quality and dampens the harmful effect of financial target, yet leaves the other relationships unchanged. The central contribution is therefore twofold: a multidimensional, composite measure of audit quality sharpens the detection of misstatement risk, and the complementarity between external audit and the audit committee is confirmed as selective rather than universal, extending agency-based reasoning about how monitoring mechanisms interact.

The study has limitations that also frame its practical implications. The model explains a moderate share of the variation in misstatement, so factors such as ownership structure, internal control quality, macroeconomic conditions, and capital-market pressure remain to be incorporated; the F-Score measures the risk of intentional misstatement rather than proven fraud; and the audit committee is captured only through meeting frequency, leaving financial expertise and independence unmeasured. For management, the results argue for realistic targets, prudent leverage, and the simultaneous use of a high-quality auditor and an empowered audit committee. For auditors, they point to firms with aggressive targets and heavy debt as priority risk areas. For regulators, they suggest strengthening the substance of audit committee and audit quality requirements rather than their formal thresholds, and for investors and creditors they flag aggressive targets and high leverage as markers of reporting risk. Future research could add alternative fraud measures such as the Beneish model or regulatory sanction data, broaden the audit committee construct to include expertise and independence, and extend the analysis to sectors where receivables and accounting estimates carry greater weight.

This study answers the four research objectives by showing that higher audit quality is associated with lower fraudulent-financial-reporting risk; financial target and external pressure are positively associated with that risk; the other fraud-diamond proxies are not statistically significant; and audit-committee activity moderates only the audit-quality and financial-target relationships. Thus, the supported pattern is selective: pressure factors are the dominant significant fraud-diamond signals in this consumer-sector sample, while the audit committee complements external audit and attenuates target-related pressure rather than moderating every risk channel.

The study contributes a multidimensional audit-quality measure and an integrated agency-theory framework in which monitoring mechanisms and fraud-risk conditions are estimated together. Its limitations are the use of the F-Score as a risk indicator rather than legal proof of fraud, a moderate adjusted explanatory power, and audit-committee measurement based only on meeting frequency. Management should set realistic targets, monitor leverage, and pair high-quality external audit with substantive audit-committee oversight; future research should incorporate audit-committee expertise and independence, alternative fraud measures, additional governance variables, and sector comparisons.

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## AUTHOR CONTRIBUTION STATEMENT

Arly Leonard Manafe conceptualized the study, collected and analyzed the data, and prepared the initial draft. Etty Murwaningsari supervised the research, refined the theoretical framework and methodology, and critically revised the manuscript. Both authors read and approved the final version.

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