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Final revision:
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license**FROM FINANCIAL DISTRESS TO FRAUD: A SOCIO-ECONOMIC ANALYSIS OF CORPORATE ACCOUNTABILITY MODERATED BY AUDIT QUALITY IN INDONESIA'S MINING SECTOR****Shelly Lusiana¹, Taufik Akbar^{1*}**¹Universitas Mercu Buana, Jalan Meruya Selatan No.1, Jakarta 11650, Indonesia*Correspondence E-Mail: taufikakbar@mercubuana.ac.idDOI: <https://doi.org/10.30598/baileofisipvol3iss2pp506-523>**ABSTRACT**

This study examines the influence of financial distress and independent commissioners on financial statement fraud, with audit quality serving as a moderating variable, in mining companies listed on the Indonesia Stock Exchange between 2020 and 2024. Grounded in a socio-economic perspective, the research conceptualizes financial reporting fraud as a structural response to economic pressure and governance limitations rather than merely individual managerial misconduct. Using a quantitative causal research design, the study analyzes secondary data from 52 mining firms selected through purposive sampling. Financial distress is measured using the G-Score, financial statement fraud is proxied by the F-Score, and audit quality is classified based on Big Four and non-Big Four auditors. Data are analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS) with SmartPLS 4. The findings indicate that financial distress has a significant positive effect on financial statement fraud, while the proportion of independent commissioners does not exhibit a significant influence. Furthermore, audit quality does not moderate the relationship between financial distress and fraud, nor between independent commissioners and fraud. These results suggest that financial pressure remains the dominant driver of fraudulent reporting in Indonesia's mining sector, whereas formal governance and external assurance mechanisms have yet to function effectively. This study contributes to the literature by integrating socio-economic and governance perspectives to explain financial statement fraud as a relational and structural phenomenon within emerging market contexts.

Keywords: Audit Quality, Corporate Accountability, Financial Distress, Financial Statement Fraud, Independent Commissioners

INTRODUCTION

The mining industry represents one of the most vital sectors in Indonesia's economy, contributing significantly to foreign exchange earnings, employment creation, and the attraction of foreign investment (Jayana et al., 2023; I. E. Setiawan et al., 2021). However, despite its considerable contributions, this sector often draws public scrutiny due to its vulnerability to practices that threaten corporate transparency and accountability (Putri, 2023; Yanuardi et al., 2021, 2022). Incidents of financial statement manipulation, revenue concealment, and creative accounting practices have frequently surfaced in the media, indicating that financial statement fraud is not an isolated occurrence but a systemic issue rooted in socio-economic conditions and

weak corporate governance (Nur Agustin et al., 2025; Purwati et al., 2022). This paradox illustrates a tension between the image of economic growth and the persistence of questionable financial integrity.

Financial distress is often identified as a primary driver of financial statement fraud (Aviantara, 2021; Halteh & Tiwari, 2023). When firms face liquidity challenges, declining revenues, or market pressures, management may attempt to maintain the appearance of stability in the eyes of investors and regulators (Athaya et al., 2025). Consequently, financial statement manipulation becomes a shortcut to sustain market confidence. From a socio-economic sociology perspective, this phenomenon extends beyond technical accounting issues; it reflects a moral dilemma in modern corporate life, where the pursuit of profit often overrides professional ethics. Indonesia, as a developing nation still progressing toward full transparency, provides an empirical context in which economic pressures, organizational structures, and audit quality interact to shape corporate accountability (Huang et al., 2023; Jan, 2021).

Prior studies have highlighted the linkage between financial pressure and the tendency of firms to engage in earnings manipulation. Lassoued and Khanchel (2025) and Li et al. (2025) found that firms under severe economic pressure are more likely to adopt aggressive accounting practices to preserve their reputation and access to financing. Similar findings were reported by Rahman, Anggraini et al. (2025), and Marjohan (2024), who demonstrated that financial distress significantly increases the likelihood of fraudulent financial reporting in developing economies. Achmad et al. (2022), Fauzy et al. (2025), and Febrira et al. (2025) further observed that prolonged financial distress can shift managerial behavior from efficiency-oriented toward opportunistic conduct. From a socio-economic sociology perspective, these findings suggest that market logic influences the moral decision-making of individuals within organizations.

The role of independent commissioners as an internal monitoring mechanism has also received substantial attention. Abbas et al. (2021) and Mayasari and Nengzih (2025) emphasized the importance of separating ownership and control to mitigate conflicts of interest. Empirical studies by Meiryani and Isa (2019) and Ramdani and Saputra (2025) found that a higher proportion of independent commissioners positively influences financial transparency and reduces earnings management. However, other scholars such as Apriliani (2023), Harianja (2025), and Pratiwi et al. (2023) reported that the presence of independent commissioners in some Indonesian companies often functions merely as symbolic compliance (tokenism) without adequate authority to prevent manipulation. This discrepancy underscores the gap between the ideal governance structure and actual supervisory practices within Indonesia's corporate socio-cultural context.

Meanwhile, literature on audit quality highlights the role of external auditors as third-party mediators between management and stakeholders. Empirical evidence from Jain and Agarwalla (2023) and Smaili (2021) indicates that auditors from Big Four public accounting firms possess stronger reputations and resources for detecting fraud compared to non-Big Four auditors. However, Kassem and Omoteso (2024), Khurana et al. (2021), and Rustiarini et al. (2020)

observed that in developing economies, high audit quality does not always ensure fraud detection, as auditors often face social, economic, and political pressures that compromise their independence.

In the Indonesian context, Khurana et al. (2021) and Yasmin et al. (2024) found that high-quality audits reduce earnings manipulation, though their effectiveness weakens under severe financial distress. Similarly, Abdennadher et al. (2022) and Sari et al. (2023) reported that external audits are often ineffective when corporate governance systems do not support transparency. Moreover, Fauzi et al. (2025) and Mayndarto (2025) revealed that companies audited by Big Four firms enjoy a positive reputation among investors but do not necessarily exhibit higher compliance with reporting standards. These findings imply that audit effectiveness is highly dependent on the socio-economic and institutional environment in which companies operate.

Recent studies have begun to connect financial statement fraud with socio-economic sociology perspectives. Abdennadher et al. (2022) asserted that economic behavior is always embedded within social networks that influence business decisions. In this context, manipulative decisions are not solely economically motivated but also shaped by norms, power relations, and social pressures within organizations. Bellucci et al. (2022) and Dyball and Seethamraju (2022) further argued that auditing functions not only as a technical monitoring process but also as a social practice that legitimizes corporate actions in the public eye. Consequently, corporate fraud can be viewed as a complex interaction between economic pressures, organizational structures, and societal expectations of accountability.

Against this background, this study seeks to transcend technical accounting approaches by integrating socio-economic analysis to understand financial statement fraud. It posits that corporate accountability is shaped not only by regulatory systems and audit mechanisms but also by social dynamics, economic pressures, and organizational culture within Indonesia's mining firms. This study aims to answer a central question: To what extent do financial pressures and internal oversight structures shape manipulative behavior, and can audit quality serve as an effective moral buffer within socially and economically pressured environments?

Conceptually and empirically, this study contributes to economic sociology by illuminating how capitalist economic logic interacts with corporate social norms to produce deviant financial behaviors. Practically, the findings are expected to inform regulators, auditors, and stakeholders in designing supervisory systems that go beyond formal compliance and incorporate social understandings of corporate behavior. Therefore, this study not only examines statistical relationships among variables but also reveals the social dimensions underlying financial reporting—dimensions that, while often overlooked, critically shape the trajectory of corporate accountability in Indonesia.

Agency theory describes a contractual relationship between two parties within a firm's organizational structure—namely, owners (principals) and managers (agents). Company owners delegate authority to management to run the firm's operations on their behalf, and management is responsible for carrying out these duties and reporting its performance outcomes to the

principal (Tridayanti et al., 2022). In practice, conflicts of interest may arise when agents are incentivized to portray corporate performance more favorably in order to secure rewards or incentives from principals. Such incentives may create opportunities for manipulation, particularly when agents possess discretion in determining the firm's reported earnings. The higher the earnings reported, the greater the potential compensation that may be obtained. However, such manipulative conduct can impair the credibility of financial statements, as the information presented no longer faithfully represents the firm's actual economic condition (Lubis, 2024).

Grounded in agency theory, this study conceptualizes fraudulent financial reporting as a consequence of conflicts of interest between principals and agents under conditions of financial pressure (Tridayanti et al., 2022). When firms experience financial distress, managers may face strong incentives to present an overly favorable picture of corporate performance in order to maintain investor confidence and secure economic rewards. Such discretionary behavior can undermine the credibility of financial statements and distort stakeholders' decision-making processes.

To mitigate these risks, corporate governance mechanisms—particularly the presence of independent commissioners—are expected to enhance oversight and reduce managerial opportunism. Independent commissioners play a crucial role in safeguarding objectivity and protecting stakeholder interests by monitoring strategic decisions and financial disclosures (Mardiana, 2021). In addition, external audit quality functions as an assurance mechanism that can strengthen financial reporting credibility by detecting material misstatements and irregularities. Audits conducted by Big Four accounting firms are commonly perceived as providing higher assurance due to greater technical expertise and stricter compliance with professional standards (Emalia et al., 2020).

Based on this theoretical and empirical discussion, this study proposes the following hypotheses:

- H1: Financial distress has a positive effect on fraudulent financial reporting.
- H2: Independent commissioners have a negative effect on fraudulent financial reporting.
- H3: Audit quality moderates the relationship between financial distress and fraudulent financial reporting.
- H4: Audit quality moderates the relationship between independent commissioners and fraudulent financial reporting.

RESEARCH METHOD

This study adopts a quantitative causal research design to examine the relationships between financial distress, independent commissioners, audit quality, and financial statement fraud among mining companies listed on the Indonesia Stock Exchange during the 2020–2024 period. A causal approach is employed to test theoretically grounded hypotheses concerning how

economic pressure and corporate governance mechanisms influence fraudulent financial reporting behavior. The population of this study consists of 89 mining companies listed on the Indonesia Stock Exchange, from which a sample of 52 firms was selected using purposive sampling. The sampling process was guided by several criteria, including continuous listing throughout the observation period, the availability of complete annual and financial reports, and the disclosure of auditor identity and board composition. The mining sector was chosen due to its strategic economic importance and its documented susceptibility to financial reporting irregularities in emerging market contexts.

The study relies exclusively on secondary data obtained from audited annual reports, financial statements, and corporate governance disclosures published through the official Indonesia Stock Exchange website and corporate portals. Financial distress is measured using the G-Score, which captures firms' financial vulnerability and exposure to economic pressure. Financial statement fraud is proxied by the F-Score, a composite indicator commonly used to detect potential manipulation in financial reporting through accrual quality and performance-based measures. Independent commissioners are measured as the proportion of independent commissioners relative to the total number of commissioners, reflecting the level of internal oversight within the firm. Audit quality is measured using a dummy variable, where companies audited by Big Four accounting firms are coded as one, while those audited by non-Big Four firms are coded as zero, consistent with prior accounting and governance research.

Data analysis is conducted using Structural Equation Modeling–Partial Least Squares (SEM-PLS) with the assistance of SmartPLS 4 software. SEM-PLS is selected due to its suitability for predictive and exploratory research models, its robustness in handling relatively small sample sizes, and its ability to simultaneously assess measurement and structural relationships. The analytical procedure follows established guidelines, including the evaluation of convergent validity, estimation of structural path coefficients, and hypothesis testing through a bootstrapping procedure with 5,000 resamples. Moderation analysis is performed to examine whether audit quality alters the relationships between financial distress and financial statement fraud, as well as between independent commissioners and financial statement fraud. As the study is based solely on publicly available secondary data, it does not involve human subjects and therefore does not raise ethical concerns related to confidentiality or informed consent.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis was conducted to provide a comprehensive overview of the research data encompassing 52 mining companies in Indonesia over the 2020–2024 period, totaling 260 firm-year observations. The purpose of this analysis is to understand the distribution and central tendencies of the key variables—financial distress, independent commissioners, financial statement fraud, and audit quality—prior to testing the structural model using SEM-PLS.

This step not only serves as an initial stage of data verification but also provides socio-economic insights into the financial and governance dynamics of Indonesia’s mining sector, which is characterized by high volatility due to commodity price fluctuations and dependence on export–import policies related to natural resources.

Analysis of the financial distress variable revealed a minimum value of –15.846 and a maximum of 3.758, with a mean of 0.365 and a standard deviation of 1.433. The lowest score was recorded by Akbar Indo Makmur Stimec Tbk in 2023, indicating severe financial distress, while the highest was observed for Mitrabara Adiperdana Tbk in 2022, reflecting a relatively stable financial condition. The wide range indicates structural disparities in financial resilience among firms. Socio-economically, this variation reflects competitiveness gaps within Indonesia’s mining industry, where firms remain heavily dependent on global coal, nickel, and gold prices. High revenue volatility often pressures management to present stable performance through financial reports that appear “normal,” even when facing liquidity challenges. In this context, institutional strain theory (Talpur et al., 2025) becomes relevant, as it explains that economic pressures within organizations may generate institutional tension that fosters deviant behavior such as financial manipulation when governance norms are insufficiently robust to constrain opportunistic incentives.

Table 1 scriptive Statistics of Financial Distress, Independent Commissioners, and Financial Statement Fraud Variables

Variable	Minimum	Maximum	Mean	Median	Standard Deviation
Financial Distress	–15.846	3.758	0.365	0.382	1.433
Independent Commissioners	0.167	0.833	0.422	0.400	0.119
Financial Statement Fraud	–1.708	1.833	0.035	0.026	0.331

Source: Processed data from SmartPLS 4 (2025)

The independent commissioner variable showed a minimum value of 0.167 and a maximum of 0.833, with a mean of 0.422 and a standard deviation of 0.119. These figures indicate that, on average, the composition of independent commissioners among mining companies has met the minimum regulatory requirement set by the Financial Services Authority (OJK), which mandates at least 30% independence on the board. However, the variation from 16% to 83% suggests that some firms still treat independent commissioner positions as regulatory formalities rather than substantive oversight pillars. From a corporate governance perspective, this condition illustrates decoupling between practice and norms, where the implementation of good corporate governance principles has not been fully internalized within organizational culture (Hu et al., 2019). The relatively low proportions in certain firms reinforce the notion that board independence is often symbolic, particularly in family-owned or closely held firms—a structure that remains prevalent in Indonesia’s mining sector (Apriliani, 2023).

The financial statement fraud variable ranged from -1.708 to 1.833 , with a mean of 0.035 and a standard deviation of 0.331 . The lowest value, observed in Akbar Indo Makmur Stimec Tbk in 2023, reflects a low risk of fraud, while the highest value, recorded by PT Perdana Karya Perkasa Tbk in 2023, indicates above-average risk. The overall mean close to zero suggests that most firms exhibit relatively low levels of fraud risk. Nonetheless, the wide dispersion indicates varying reporting behaviors among companies—often associated with external pressure from capital markets and investor expectations (Perdana & Akbar, 2025). From a socio-economic standpoint, such variation can be interpreted as an adaptive response to legitimacy pressures: when firms face reputational risk due to performance decline, financial manipulation becomes a symbolic strategy to maintain corporate survival.

Table 2 Descriptive Statistics of Audit Quality Variable

Audit Quality	Frequency	Percentage
Non–Big Four	175	67.3%
Big Four	85	32.7%
Total	260	100%

Source: Processed data from SmartPLS 4 (2025)

The predominance of firms audited by non–Big Four public accounting firms (67.3%) suggests that most mining companies in Indonesia still prioritize cost efficiency over the perceived credibility of external audits. This finding aligns with the results of Amoako et al. (2025) and Nyatsanza et al. (2025), who found that firms in developing economies tend to engage non–Big Four auditors when not facing substantial pressure from global capital markets. Conceptually, this also supports Channuntapipat’s (2021) notion of rituals of verification, wherein auditing is performed primarily to satisfy formal expectations rather than to establish genuine transparency.

Outer Model Testing

The initial stage of the Structural Equation Modeling–Partial Least Squares (SEM-PLS) analysis involves evaluating the measurement model (outer model). This step assesses the extent to which indicators accurately represent their latent constructs—financial distress, independent commissioners, financial statement fraud, and audit quality. Convergent validity was tested using the outer loading values of each indicator on its respective construct. Following the criteria established by Fischer et al. (2023), indicators with outer loading values exceeding 0.70 are considered to demonstrate adequate convergent validity, indicating that they strongly contribute to explaining their corresponding latent variables.

As shown in Table 3, all constructs in the study exhibit outer loading values of 1.000 —well above the 0.70 threshold—indicating that all variables achieve strong convergent validity. This result demonstrates that each latent construct is well represented by its indicators, with no distortion in measurement. In this context, the findings confirm that conceptual dimensions such as financial pressure, independent board oversight, and financial statement fraud are empirically

supported by data from 52 mining companies during the 2020–2024 period.

Table 3 Outer Loading Results

Variable	Outer Loading	Description
Financial Distress	1.000	Valid
Financial Statement Fraud	1.000	Valid
Independent Commissioners	1.000	Valid
Audit Quality	1.000	Valid

Source: Processed data from SmartPLS 4 (2025)

High convergent validity reflects consistency between theory and empirical data, forming a crucial foundation for structural model analysis. Within corporate socio-economic research, this implies that abstract concepts such as financial distress are not merely numerical metrics but empirical reflections of the social realities of organizations under economic strain. For instance, the G-Score has been shown to reliably capture significant levels of financial difficulty, while the proportion of independent commissioners is widely recognized as a key indicator of corporate governance quality (Bondar & Mudzakar, 2023; Martini et al., 2023). Similarly, the F-Score has been internationally utilized as a proxy for fraudulent reporting behavior, capturing both moral and structural pressures within organizations (Halteh & Tiwari, 2023; Yanuardi et al., 2021).

The robustness of convergent validity carries not only methodological but also theoretical implications. Within the framework of institutional strain theory, valid measurement of financial distress enables a deeper analysis of how economic pressures compromise organizational integrity and foster deviant behaviors such as financial manipulation. Therefore, measurement reliability is not merely a matter of statistical precision but also of accurately capturing the underlying social realities represented by the data.

Furthermore, the perfect outer loading values across all constructs indicate the absence of cross-loading among variables, ensuring no conceptual overlap between dimensions. This is essential for maintaining theoretical clarity, confirming that constructs such as governance, financial pressure, and audit quality stand as distinct conceptual entities (Maxwell & Levitt, 2023). In other words, the measurement model in this study demonstrates strong integrity both theoretically and empirically.

From a socio-economic perspective, the high level of convergent validity also indicates that the measurement system effectively captures the multidimensional nature of corporate phenomena. This consistency underscores that financial pressure, independent governance, and external auditing function interactively as components of corporate accountability systems within Indonesia's mining sector. Consistent with Power's (2021) argument in *The Audit Society Revisited*, these findings suggest that the strength of valid data forms the foundation for understanding auditing and governance not merely as administrative processes but as socially embedded phenomena shaped by power structures and economic pressures.

Inner Model Analysis

The inner model analysis represents the subsequent stage in the SEM-PLS approach, aimed at evaluating the strength of relationships among latent variables and the explanatory power of the structural model in accounting for the observed phenomena. This analysis encompasses three main components—goodness of fit, R-square values, and hypothesis testing—which collectively assess both the structural validity and predictive strength of the research model.

The goodness of fit test was performed to determine the degree to which the proposed model aligns with the empirical data. The index employed in this study is the Standardized Root Mean Square Residual (SRMR). As presented in Table 4, the SRMR value obtained was 0.002, substantially below the recommended threshold of 0.10 proposed by Henseler, Hubona, and Ray (2016). This finding indicates an excellent model fit, implying that the theoretical structure—specifically, the relationship between financial distress, corporate governance through independent commissioners, and audit quality in relation to financial statement fraud—accurately reflects the empirical data. Consequently, the model is not only statistically robust but also conceptually solid in explaining the dynamics of corporate behavior in Indonesia’s mining sector, where economic pressures and weak oversight often underpin financial statement manipulation.

Table 4 Standardized Root Mean Square Residual (SRMR)

Name	Estimated Model
SRMR	0,002

Source: Processed data from SmartPLS 4 (2025)

Subsequently, the R-square test was employed to measure the model’s explanatory capacity for the endogenous construct, namely financial statement fraud. As shown in Table 5, the R-square value was 0.216, indicating that approximately 21.6% of the variation in fraudulent financial reporting can be explained by the factors within the model, while the remaining 78.4% is influenced by external variables such as organizational culture, institutional pressures, and individual ethical factors. Pollard and Wolfberg (2022) categorize R-square values between 0.19 and 0.33 as moderate, suggesting that the model possesses a satisfactory explanatory power within complex socio-economic research contexts.

Table 5 R-Square Results

Variable	R-Square	R-Square Adjusted
Financial Statement Fraud	Financial Statement Fraud	Financial Statement Fraud

Source: Processed data from SmartPLS 4 (2025)

These findings reinforce the notion that fraudulent financial behavior cannot be explained solely by formal financial indicators but must also be understood through broader social, structural, and institutional contexts (Power, 2021; Skaerbaek, 2022). For instance, under

conditions of economic pressure, firms facing bankruptcy risks are often tempted to manipulate their financial reports to maintain an image of stability before investors and regulators (Budisantoso & Kurniawan, 2024).

The results of hypothesis testing, as shown in Table 6, provide a deeper understanding of the direction and strength of relationships among the studied variables. The analysis was conducted using a bootstrapping technique with 5,000 subsamples at a 5% significance level.

Table 6 Hypothesis Testing Results

Relationship	Path Coefficient	T Statistics	P Values	Description
Financial Distress → Financial Statement Fraud	0.513	3.915	0.000	Positive, Significant
Independent Commissioner → Financial Statement Fraud	-0.015	0.298	0.383	Negative, Not Significant
Audit Quality × Financial Distress → Financial Statement Fraud	0.054	0.573	0.283	Positive, Not Significant
Audit Quality × Independent Commissioner → Financial Statement Fraud	0.029	0.680	0.248	Positive, Not Significant

Source: Processed data from SmartPLS 4 (2025)

The results demonstrate that financial distress exerts a significant positive effect on financial statement fraud ($\beta = 0.513$, $p < 0.001$). This finding aligns with the fraud triangle theory, which identifies financial pressure as a primary driver of fraudulent behavior (Hidayat & Utami, 2023; Sánchez-Aguayo et al., 2021). In Indonesia's mining industry, liquidity pressure arising from commodity price volatility often creates internal pressure on management to project a façade of stable performance.

In contrast, the influence of independent commissioners on financial statement fraud was negative but statistically insignificant ($\beta = -0.015$, $p = 0.383$), indicating a weak role of internal oversight mechanisms in Indonesian corporate governance practices, often characterized by pseudo-independence or structural entanglement between boards and management (Wahyudi & Setiyawati, 2022).

Furthermore, the moderating effect of audit quality was not significant in strengthening or weakening the relationship between financial distress and independent commissioners on financial statement fraud. This suggests that auditing mechanisms in the mining sector have not yet functioned optimally as external control tools. The limited resources of auditors, coupled with client pressure and the transactional complexity of extractive industries, tend to reduce the effectiveness of audits in preventing manipulative behavior.

Financial Distress and Structural Pressures on Financial Statement Fraud

The first hypothesis (H1) proposed that financial distress has a positive effect on financial statement fraud. As shown in Table 6, H1 is accepted, supported by a p-value of 0.000. This result indicates that the higher the degree of financial distress experienced by a company, the greater

the likelihood of engaging in financial reporting fraud.

This finding is grounded in agency theory, which conceptualizes the contractual relationship between the principal (owner) and the agent (manager). The principal delegates authority to the agent to act on their behalf, while the agent bears responsibility for achieving the principal's objectives. When a company experiences financial distress, management may be incentivized to manipulate financial statements—such as through earnings inflation or liability suppression—to conceal the firm's true condition. This practice exacerbates information asymmetry, potentially leading stakeholders to make misinformed economic decisions.

These results are consistent with prior studies by Andrew et al. (2022), Mudel and Jhunjhunwala (2023), and Reskino and Darma (2023), all of which found that financial distress positively influences financial statement fraud. Managers under financial pressure may engage in fraudulent reporting to sustain investor confidence and preserve the company's market reputation.

The Ineffectiveness of Independent Commissioners as a Formal Governance Mechanism

The second hypothesis (H2) tested whether independent commissioners negatively affect financial statement fraud. As presented in Table 6, H2 is rejected, supported by a p-value of 0.383, indicating no significant relationship between the two variables. This suggests that the presence of independent commissioners has not been empirically proven to mitigate financial reporting fraud within the sampled firms.

This condition may occur because many Indonesian firms appoint independent commissioners merely to comply with Jakarta Stock Exchange Regulation No. 339/BEJ/07-2001, which mandates publicly listed firms to have independent commissioners as external monitors. Additionally, given the dominance of family ownership structures in Indonesia, independent commissioners may struggle to exercise genuine oversight.

According to agency theory, independent commissioners serve as a governance mechanism to reduce information asymmetry between agents and principals. Ideally, they should ensure transparent financial reporting and proper implementation of good corporate governance (GCG) principles. However, in practice, their effectiveness remains limited, as their roles are often symbolic, fulfilling only regulatory formalities (Indiraswari & Izzalqurny, 2021).

This finding aligns with studies by Sintabela and Badjuri (2023), Nindito et al. (2025), and K. Setiawan and Trisnawati (2022), which similarly report that independent commissioners have no significant impact on reducing financial statement fraud, as their roles are largely compliance-driven rather than substantive.

Audit Quality and the Absence of a Moderating Effect: Between Technical Formulation and Social Reality

The third hypothesis (H3) was formulated to test whether audit quality moderates the relationship between financial distress and financial statement fraud. As shown in Table 6, this hypothesis is rejected, supported by a p-value of 0.283. This indicates that audit quality does not

significantly moderate the relationship between financial distress and fraudulent financial reporting.

This finding suggests that, although high-quality auditors—such as those from Big Four accounting firms—are generally assumed to perform more rigorous audits than non-Big Four auditors, their effectiveness diminishes when firms experience financial distress. Under such conditions, audit quality alone is insufficient to restrain managerial incentives to manipulate financial reports. Both types of auditors essentially perform similar roles in identifying material misstatements and adhering to professional codes of ethics within the constraints of prevailing accounting standards.

Consistent with agency theory, which highlights the inherent conflict of interest between agents (management) and principals (owners), financial distress heightens the agent's motivation to engage in fraudulent reporting to present a favorable performance image to principals. The resulting agency costs challenge the extent to which audit quality can mitigate opportunistic behavior. Despite the presence of high-quality audits—whether conducted by Big Four or non-Big Four firms—the moderating effect remains insignificant, implying that the auditing function exerts limited influence over management's inclination toward fraudulent reporting.

This result aligns with the findings of Azizah et al. (2023), who demonstrated that audit quality does not moderate the relationship between financial distress and financial statement fraud. According to their study, even high-quality auditors tend to focus on understanding the client's industry conditions when financial distress occurs, and the ultimate effectiveness of an audit depends on the auditor's independence and sector-specific expertise rather than firm size alone.

Weak Interaction Between Independent Commissioners and Audit Quality: A Crisis of Relational Accountability

The fourth hypothesis (H4) aimed to examine whether audit quality moderates the relationship between independent commissioners and financial statement fraud. As shown in Table 6, this hypothesis is also rejected, supported by a p-value of 0.248. This implies that audit quality does not significantly strengthen the relationship between independent commissioners and the mitigation of financial statement fraud.

This outcome indicates that the presence of high-quality auditors (Big Four) does not substantially enhance the effectiveness of independent commissioners in monitoring and preventing fraudulent reporting practices. In other words, the interaction between internal oversight mechanisms (independent commissioners) and external assurance mechanisms (auditors) fails to demonstrate meaningful synergy in curbing managerial manipulation of financial information.

In theory, independent commissioners play a pivotal role in reducing agency conflicts between principals and agents as part of the Good Corporate Governance (GCG) framework. Their duties include overseeing company policies and ensuring ethical and transparent decision-

making. Similarly, external audits performed by public accounting firms are expected to strengthen governance mechanisms and limit opportunistic managerial behavior. However, this study's findings reveal that audit quality does not moderate the relationship between independent commissioners and fraudulent reporting—suggesting that institutional oversight remains fragmented and largely symbolic.

These results are consistent with Rahayu (2020), who also found that audit quality fails to moderate the relationship between independent commissioners and financial statement fraud. The persistence of this pattern highlights a deeper accountability gap, where formal governance structures exist but lack relational integration and enforcement strength, particularly in developing economies characterized by concentrated ownership and limited regulatory capacity.

CONCLUSION

Based on the overall findings and analysis, this study concludes that financial statement fraud in Indonesia's mining sector primarily reflects financial distress pressures rather than weaknesses in formal governance structures. The results affirm that financial distress serves as the dominant determinant driving manipulative financial reporting behavior, while the presence of independent commissioners has yet to demonstrate significant effectiveness in mitigating such risks. Moreover, audit quality—whether provided by Big Four or non-Big Four firms—has not been proven to enhance control mechanisms or alter the relationship between financial pressure and fraud. This indicates persistent institutional weaknesses within the corporate accountability system. From a sociological perspective, corporate fraud should not be viewed merely as an individual anomaly but rather as a structural manifestation of tensions among market demands, economic pressures, and the limitations of professional oversight in resource-dependent economies. The novelty of this research lies in its integration of socio-economic perspectives into the analysis of corporate fraud, emphasizing that corporate accountability in Indonesia must be understood as the outcome of interactions among financial pressures, power structures, and institutional capacities that remain unevenly developed. Therefore, enhancing corporate accountability in strategic sectors such as mining requires a more participatory, ethically grounded, and context-sensitive reform of oversight systems that recognizes the social and economic realities shaping corporate behavior.

ETHICAL STATEMENT AND DISCLOSURE

This study was conducted in accordance with established ethical principles, including informed consent, protection of informants' confidentiality, and respect for local cultural values. Special consideration was given to participants from vulnerable groups to ensure their safety, comfort, and equal rights to participate. No external funding was received, and the authors declare no conflict of interest. All data and information presented were collected through valid research methods and have been verified to ensure their accuracy and reliability. The use of

artificial intelligence (AI) was limited to technical assistance for writing and language editing, without influencing the scientific substance of the work. The authors express their gratitude to the informants for their valuable insights, and to the anonymous reviewers for their constructive feedback on an earlier version of this manuscript. The authors take full responsibility for the content and conclusions of this article.

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