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THE INFLUENCE OF AUDIT COMMITTEE FUNCTION, CORPORATE ETHICAL VALUES, AND ENTERPRISE RISK MANAGEMENT EFFECTIVENESS ON THE FRAUDULENT FINANCIAL STATEMENTS TENDENCY

Survey on Companies Listed in Indonesia Stock Exchange

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Abstract: *The tendency of fraudulent financial statements is a phenomenon that is still going on in many companies include Indonesia companies. This study aims to examine and analyze the influence of audit committee function, corporate ethical values, and enterprise risk management effectiveness on the fraudulent financial statements tendency. Data used in this research were obtained through survey by collecting questionnaires from 66 companies listed in Indonesia Stock Exchange and annual reports were retrieved from www.idx.co.id. The data were then processed statistically by applying PLS-SEM. The method of this research was explanatory research method.The result of this study shows that the fraudulent financial statements tendency is influenced by the corporate ethical values and enterprise risk management effectiveness, but it is not influenced by audit committee function.*

Keywords: *Audit Committee Function, Corporate Ethical Values, Enterprise Risk Management Effectiveness, Fraudulent Financial Statements Tendency.*

1. INTRODUCTION

Association of Certified Fraud Examiners (ACFE) (2014) stated that a fraud is something that can happen anywhere, and no single company has immunity against it. ACFE (2014) classifies a fraud into 3 (three) types, namely corruption, asset misappropriation and financial statement fraud. This study focuses on financial statement fraud, because this type of fraud shows an increasing trend and has biggest impact on financial losses than the other two types of fraud (ACFE, 2014). Yim (2010) stated that fraud is a major issue

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behind the late submission of financial statements. In Indonesia, the phenomenon of fraudulent financial statements tendency shown by the late submission of financial statements are still relatively made by many issuers in the Indonesia Stock Exchange (BEI). Table 1 shows the summary of the number of issuers who violate the obligation to submit the financial statements, whether periodical or annual, as well as the types of sanctions imposed.

Table 1.
Number of Issuers Undertaking Violations in Terms of Late Submission of Financial Statements of Year 2014

Financial Statements	*Type of Sanction*		*Total*
	Written Warning	*Penalty*	
Periodical	45	55	100
Annual	1	67	68
Total	46	122	168

Source: OJK (2015, processed)

According to Sukirman and Sari (2013), if Capital Market Supervisory Agency and Financial Institution (Bapepam-LK) suggested that there are irregularities in some stock trade transactions due to a manipulation or fraud, Bapepam-LK will act quickly to stop the stock trading companies suspected of troubled either temporarily or permanently. Table 2 below shows the summary of the number of issuers that get suspended from trading stocks and permanent cessation in 2010 - 2014.

Table 2.
Number of Issuers Penalized of Trading Stock Cessation

Year	*Temporary Cessation of Trading Stock*	*Permanent Cessation of Trading Stock*
2010	74	0
2011	48	5
2012	84	4
2013	66	7
2014	61	1

Source: www.idx.co.id (processed)

There are many factors that cause the tendency of fraudulent financial statements. These factors are audit committee function (Beasley, et, al., 1999; Collier &Ampomah, 2006: 105; Huang & Thiruvadi, 2010; Madawaki & Amran, 2013; Alwi, et, al., 2013; Ani, 2014; andArens, et, al., 2014: 367), corporate ethical values (Green & Calderon, 1999; Bell, et, al., 2000; Dallas, 2002; Albretch, et, al., 2004: 37;Weygandt, et, al., 2011: 8; and Arens, et, al. 2014: 287), andeffectiveness of enterprise risk management (ERM) (COSO, 2004, 2010; AICPA, 2010; Song & Kemp. 2013; Helland&Garatun, 2013; and Cohen, et, al., 2014).

Based on the phenomenon, the literature that are used and the results of previous researches, this research will focus on the research object, **the audit committee function, corporate ethical values, enterprise risk management effectiveness and their influence on the fraudulent financial statements tendency.**

2. REVIEW OF LITERATURE

2.1 Audit Committee Function

According to Collier &Ampomah (2006: 105), the main function of the audit committee is to assist the board to fulfill its stewardship responsibilities by reviewing the system of internal control, external audit process, the work of internal audit and financial information presented to stakeholders. The audit committee should function effectively in order to fulfill its main responsibility. The effectiveness of the audit committee, according to Bourke (2006), consists of attributes that are considered relevant to function effectively in its role as monitor of corporate governance. According to DeZoort, Et al., (2002), "An effective audit committee has qualified members with the authority and resources to protect stakeholder interests by ensuring reliable financial reporting, internal controls, and risk management oversight through its diligent efforts." According to DeZoort, et al., (2002), in reaching its effectiveness (output), the audit committee should fulfill its function in the form of inputs and processes. In this study, the function of the audit committee which is the input dimensions includes size, independence, and competence. The function of the audit committee which is the dimension of the process is the frequency of audit committee meetings.

Overall dimensions of the function of the audit committee in this study refers to Annex of Decision of Chairman of Bapepam Number: Kep-643/BL/2012 Kep-6 Date: December 7, 2012. Regarding the dimensions of the size of the audit committee, referred to in paragraph 2a, namely that the number of audit committee consist of at least three (3) members from the Independent Commissioner and parties from outside the Issuer or Public Company. Regarding the dimensions of independence, referring to item 2c on the independence criteria for the audit committee chairman of the audit committee is independent and item 3f until 3k on independent criteria for audit committee members. Regarding the dimensions of competence, referred to in item 3e, namely that the members of the audit committee shall have at least one member whose educational background and expertise in accounting and/or finance. Regarding the dimensional frequency of audit committee meetings, referred to in item 7a, namely that the audit committee hold regular meetings at least one in three (3) months.

2.2 Corporate Ethical Values

Ethics is defined as a discipline of study associated with good and bad, right and wrong, moral, values, and code of ethics that guide decision making and behavior (Mondy, 2008: 19; Quick & Nelson, 2009: 133; Dessler, 2011: 532; and Greenberg & Baron, 2008: 55). In the context of a company, ethical values are referred to as corporate ethical values or corporate values. The context of the ethics of a company consists of an institutionalized philosophy, ideology morale of the members of the company, and the company's code of ethics (Hunt et al, 1989; Valentine, et al., 2002). Corporate values are recognized as a strong factor that differentiates one company with another company (Alchian&Demsetz, 1972). According to Hunt, et al., (1989) corporate ethical values is the union of the ethical values of individual managers with formal and informal organizational policy on ethics.

This study adopts the size of corporate ethical values of Hunt, et, al. (1989), Saleem (2014), Iqbal, et, al. (2013), Aslan, et al., (2014), and Obalola, et al., (2012). The size of the corporate ethical values by Hunt, et, al. (1989) articulated within 5 (five) statements: (1) the behavior of the leadership ethics; (2) compromise on ethical issues; (3) top-management firm statement that unethical behavior will not be tolerated; (4) sanctions for individuals who behave unethically with resulting in profits of the individual; and (5) sanctions on individuals who behave unethically resulting in greater profitability.

The five statementsare developed to capture the three perceptions within a broad context, including: (1) the extent to which employees feel that leaders behave ethically in the company (statement 1); (2) the extent to which employees feel that the leaders concerned about ethical issues within the company (statement 3), and; (3) the extent to which employees feel that unethical behavior is sanctioned by the company (statement 2, 4, and 5).

2.3 Enterprise Risk Management Effectiveness

According to COSO (2004), ERM is definedas a process conducted by the board of directors, management and other personnel in setting strategies to identify potential events that may affect the entity and manage risk to be in risk appetite in order to provide reasonable assurance regarding the achievement of entity objectives. In the description of a more concise definition of ERM according to Bainbridge (2009) is "...the process by which a business organization anticipates, prevents, and responds to uncertainties associated with the organization strategic objectives". D'Arcy (2001) stated thedefinition of ERM by referring to the Casualty Actuarial Society (CAS), "...the process by which organizations in all industries assess, control, exploit, finance and monitor risks from all sources for the purpose of increasing the organization's short and long term value to its stakeholders". Segal (2011: 3) stated the definition of ERM in line with D'Arcy (2001),that is: "...the process by which companies identify, measure, manage, and disclose all key risks to increase value to stakeholders". Both of these latter definition emphasizes the role of ERM linked explicitly to the value of the company.

ERM consists of 8 (eight) related components (COSO, 2004; AICPA, 2010; Bediako, 2014). These components are the way companies are run integrated with process management. These eight components are: internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring. ERM effectiveness can be seen by assessing the existence and functioning of the eight components (COSO, 2004; AICPA, 2010; Bediako, 2014).

Explanation of the functioning of each component of ERM is expressed by Collier &Ampomah (2007: 151) as follows: (1) Internal environment: shows how risk is viewed by the company, including risk management philosophy and risk appetite; (2) Objective setting is the process of preparing a set of objectives that are connected with the organization's mission and are consistent with risk appetite; (3) Event identification is to identify external events and internal influencing the achievement of corporate goals and differentiate risks by chance; (4) Risk assessment includes activities analyze risks, consider the likelihood and impact as a basis to determine how it should be managed; (5) Risk response indicate when to avoid, accept, reduce or share the risk, to develop a set of measures for linking risk with risk appetite; (6) Control activities include policies and procedures that help ensure that responses to risk carried out effectively; (7) Information and communication shows how relevant information is identified, captured, and communicated thereby enabling the parties concerned can carry out their responsibilities; and (8) Monitoring means the whole ERM is monitored through ongoing management activities and separate evaluations and modifications are made when necessary.

2.4 Fraudulent Financial Statements Tendency

According to ACFE (2014), fraudulent financial statement is one of the three types of fraud in addition to corruption and misappropriation of assets. Rezaee (2005) defines financial statement fraud as "a deliberate attempt by corporations to deceive or mislead users of published financial statements, especially investors and creditors, by preparing and disseminating materially misstated financial statements." In line with Rezaee (2005), ACFE (2014) defines financial statement fraud as "a deliberate misrepresentation of the financial conditions of an enterprise accomplished through the intentional misstatement or omission of amounts or disclosures in the financial statements to deceive financial statement users."

ACFE (2014) stated that indications of fraud financial statements can be viewed through financial ratio analysis. Result of a study by Alwi et al., (2013) and Omar, et al., (2014) also proved this. On the basis of the statement ACFE (2014) and the results of research Alwi, et al., (2013) and Omar, et al., (2014), this study uses one of the tools used to detect possible fraudulent financial statements with the approach of financial and transactional red flags, such as M-Score of Messod D. Beneish (Beneish, 1999). M-Score formula is as follows:

$$M = -4.84 + 0.92*DSRI + 0.528*GMI + 0.404*AQI + 0.892*SGI + 0.115*DEPI - 0.172*SGAI + 4.679*TATA - 0.327*LVGI$$

Each component in the formula and how it is calculated, is shown in Table 3 below.

Table 3.
Eight Ratio Analysis Used as The Beneish Variables

No.	*Ratio*	*Formula*
1	Sales Growth Index (SGI)	Sales current year Sales prior year
2	Gross Margin Index (GMI)	(Sales prior year –Cost of goods sold prior year) / Sales prior year (Sales current year – Cost of goods sold current year) / Sales current year
3	Asset Quality Index (AQI)	1 - (Current assets$_t$ + net Property, plant and equipment$_t$) / Total Assets$_t$ 1 – (Current assets$_{t-1}$ + net Property, plant and equipment$_{t-1}$) /Total assets$_{t-1}$
4	Days' Sales Receivable Index (DSRI)	Receivables current year / sales current year Receivables prior year / sales prior year
5	Sales, General and Administrative Expenses Index (SGAI)	Sales, general and administrative expenses current year/ sales current year Sales, general and administrative expenses prior year/ sales prior year
6	Depreciation Index (DEPI)	Depreciation current year/ Depreciation + PPE current year Depreciation prior year/ Depreciation + PPE prior Year
7	Leverage Index (LVGI)	Long term debt + Current liabilities current year / Total assets current year Long term debt + Current liabilities prior year / Total assets prior year
8	Total accrual to total assets (TATA)	(ΔCurrent Asset - ΔCurrent Liabilities - Δ Longterm Debt – Depreciation & Amortisation - Deferred tax on Earnings - Equity in Earnings) Total assets

Source: Beneish (1999)

The criteria of the M-Score by Beneish (1999) is if the value of the M-Score of less than -2.22, meaning that the company does not perform manipulation of financial statements (not conducting fraudulent financial statements). Meanwhile, if the value of the M-Score greater than -2.22, the figure showed signs that the company tends to manipulate the financial statements.

3. THEORETICAL FRAMEWORK

3.1 The Influence of Audit CommitteeFunction on the Fraudulent Financial Statement Tendency

Uzun, et, al. (2004) stated that various functions of the audit committee influence the occurrence of corporate fraud. The function of the audit committee highlighted by Uzun, et, al. (2004) is the independence of the audit committee in the structure and composition of the audit committee. Meanwhile, other audit committee functions emphasized by Ani (2014) are the knowledge, experience, and exposure of the audit committee. Meanwhile Huang, et, al. (2010) put more emphasis on the frequency of meetings, number of members, competencies, and gender audit committee, as a function of the audit committee. Madawaki&Amran (2013) statedthat as a function of the audit committee independence, competence, meeting frequency and size (number) of the audit committee. Alwi, et, al. (2013) underlined the independence, competence, number of meetings, gender, and ethnicity of the audit committee as a function of the audit committee. Based on the above, this study raises a four-dimensional function of the audit committee of Bapepam-LK (2012) that aresize, independence, competence, and the frequency of audit committee meetings. The first three dimensionare first classified as an input dimension and the fourth dimension is classed as a dimension of the process that determines the effectiveness of the audit committee (DeZoort, et al., 2002).

Results of research by Ani (2014) concluded that the knowledge, experience, and exposure audit committee financial fraud indicators negatively affect fraudulent financial reporting. Results of research by Alwi, et al., (2013) concluded precisely that the independence of the audit committee is a positive influence on fraudulent financial reporting, but the competence of the audit committee had negative effect on fraudulent financial reporting, while the frequency of meetings, gender, and ethnicity, did not haveany effect on fraudulent financial reporting. This is in line with the results of study by Huang and Thiruvadi (2010) who found that the frequency of audit committee meetings had no effect on the prevention of fraud, as well as the number of audit committee members, but competence and gender audit committee effect on the prevention of fraud. Uzun et al., (2004) concluded that the independence of the audit committee influenced the likelihood of corporate fraud. Madawaki and Amran (2013) concluded that the formation of audit committees influential in improving the quality of financial reporting, as well as the independence and competence of the audit committee, but the frequency and size of the audit committee meeting does not affect the improvement of the quality of financial reporting. Based on the above description, it can be said that the audit committee function affects the tendency of fraudulent financial statements.

3.2 The Influence of Corporate Ethical Values on the Fraudulent Financial Statement Tendency

Related to financial reporting, a statement from Greenberg and Baron (2008) on ethics implies that ethical values can determine whether the reporting is done ethically or not. According to Weygandt, et, al. (2011: 8), effective financial reporting depends on sound ethical behavior. The statement from Weygandtet, al. (2011) reinforces Kalbers (2009) who states: "Because financial reporting is not an exact science, the competence and integrity of management are both relevant in preparing high quality financial reports."

Some researches indicated that unethical behavior affect the tendency of the accounting fraud (Bell, et al., 2000; Carpenter &Reimers, 2005; Wilopo 2006; Thoyibatun 2009, and Cohen, et al., 2010). Josephson Institute Reports (2004) also proved that unethical behavior exacerbate the level of fraud committed by employees. Based on the above description it can be concluded that corporate ethical values affect the tendency of fraudulent financial statements.

3.3 The Influence of Enterprise Risk Management Effectiveness on the Fraudulent Financial Statements Tendency

One of the goals of ERM framework is to achieve the reliability of financial reporting (COSO, 2004; Segal, 2011: 24). According to AICPA (2010) Thegoal is the goal in the category of reporting. ERM in the context of fraud expressed by ACI (2006) as a fraud risk management, where its effectiveness in preventing fraud includes four phases: assessing the risks; designing programs to prevent, detect and respond to fraud; implementing controls across the organization, and; performing evaluation.

Results of studies showing the effect of ERM effectiveness against fraudulent financial statements are still relatively few in number. This is in line with the implementation of ERM in a company that is still relatively unsettled, as inferred from the results of research COSO (2010) which stated that only 28 percent of respondents describe the implementation phase of their ERM as "systematic, robust and repeatable" with regular reporting to the Board of Commissioners. Nearly 60 percent of respondents said they are tracking the risks are largely informal and ad hoc or simply an intermittent activity, not an integral activity.

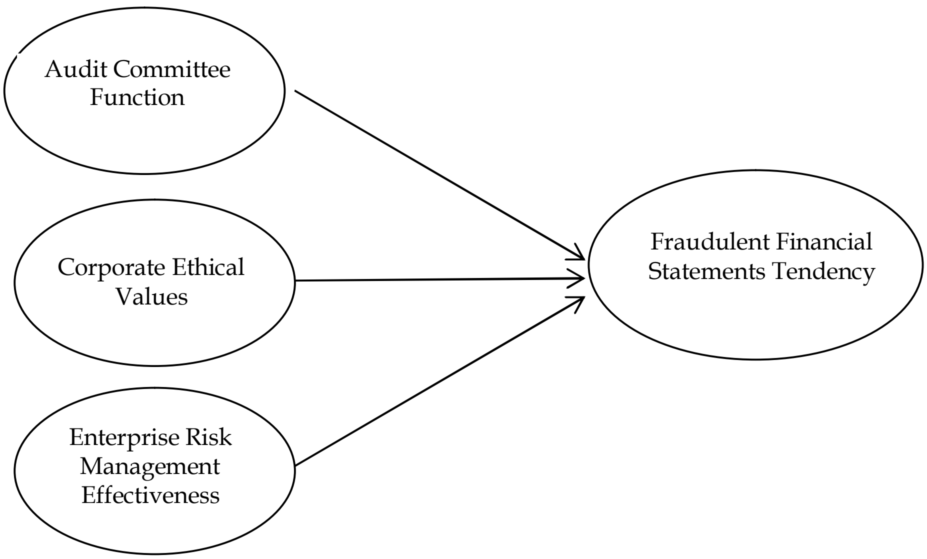
Results of the researches that had been conducted show that ERM has some effect on fraudulent financial reporting. Results of researchesby Song & Kemp (2013), Helland&Garatun (2013), and Cohen, et al. (2014), show that ERM has a significant impact on the quality of financial reporting, internal control strength and earnings volatility. Based on the above description, it can be concluded that enterprise risk management effectiveness affects the tendency of fraudulent financial statements.

4. STUDY MODEL AND HYPOTHESES

4.1 Study Model

Based on the description in the framework, it can be formulated paradigm of the relation between the audit committee function, corporate ethical values, enterprise risk management effectiveness andfraudulent financial statements tendency in a study of the model, as it is shown in the following figure:

Figure 1: Theoretical Framework of The Study



4.2 Hypothesis

Based on the framework that has been described previously, the hypothesiswhich can be formulated in this study are:

1. Audit committee function affects the fraudulent financial statements tendency.
2. Corporate ethical valuesaffect the fraudulent financial statements tendency.
3. Enterprise risk management effectiveness affects the fraudulent financial statements tendency.

5. METHODOLOGY, FINDING AND DISCUSSION

The method used in this research is explanatory method. Hypothesis testing is done by using structural equation modeling (*Structural Equation Model*-SEM) with the approach of *Partial Least Square* (PLS). The method of data collection is done by sending questionnaires to companies listed in the Indonesia Stock exchange at 2014, using postal services (*mail survey*) and electronic mail (*e-mail*). The questionnaires were distributed to the operational managers, risk managers, and internal auditors of 400 such companies (as a result of simple random sampling). There were1,200 copies of questionnaires distributed. Therewere66 companies (106 copies)that returned the questionnaires. Furthermore, the data which was analyzed in this research is the same as the number of companies that returned the questionnaires, 66 companies.

In order to answer hypothesis number 1, 2, and 3,that are the function of the Audit Committee affects the tendency of Fraudulent Financial Statements, Corporate Ethical Values affect the tendency of Fraudulent Financial Statements, and the effectiveness of ERM affects the tendency of Fraudulent Financial Statements, all can be seen in Table 4 below:

Table 4.
Structural Model of Causality Test

Relation	Coefficient Path	p-*value*	Conclusion	R Square
$X_1 \rightarrow Y$	-0.156	0.585	H0 accepted	
$X_2 \rightarrow Y$	-0.475	0.000	H0 rejected	0.402
$X_3 \rightarrow Y$	-0.253	0.031	H0 rejected	

Source: Results of Data Processing

Based on Table 4 above, it can be seen that the most dominant variable in influencing the tendency of Fraudulent Financial Statements (Y) is the Corporate Ethical Values (X2) (-0475) then followed by Effectiveness of Enterprise Risk Management (X3) (-0253) and the function of the Audit Committee (X1) (-0156). R Square is 0402, meaning that the function of the

Audit Committee (X1), Corporate Ethical Values (X2) and the Effectiveness of Enterprise Risk Management (X3) have 40.2% influence towards the tendency of Fraudulent Financial Statements (Y) while the remaining 59.8%, the tendency of Fraudulent Financial Statements (Y) is influenced by variables other than the function of the Audit Committee (X1), Corporate Ethical Values (X2) and the Effectiveness of Enterprise Risk Management (X3). The description for the effect of each variable X to variable Y is as follows.

Based on Table 4 above, it can be seen that the p-value variable function of the Audit Committee (X1) is 0.585 greater than 0.05. Therefore, the error rate of 5% was decided to accept Ho. So based on the test results,it can be concluded that the function of the Audit Committee (X1) does not affect the tendency of Fraudulent Financial Statements (Y) with a coefficient path value of -0156. From the data processing, it is found out that without a variable function of the Audit Committee (X1), the influence of Corporate Ethical Values (X2) and Enterprise Risk Management (X3) on the tendency of Fraudulent Financial Statements (Y) by 0384, so the value of f^2 for a variable function of the Audit Committee (X1) is 0.031, which means that the function of the Audit Committee (X1) has a weak influence on the tendency of Fraudulent Financial Statements (Y) (Hair, et al., 2014: 186).

The conclusion of this first study does not confirm the results of studies by Uzun, et, al. (2004), Ani (2014), and Alwi, et al., (2013). However, this conclusion successfully confirmsearlier studies conducted by Alwi, et al., (2013); Huang & Thiruvadi (2010); and Madawaki & Amran (2013), for the frequency of audit committee meetings, Huang, et, al. (2010) and Madawaki & Amran (2013) for the size of the audit committee, Alwi, et al., (2013) for the competence of the audit committee and audit committee independence. Research by Alwiet, al. (2013) even concluded that the independence of the audit committee has positive influence on fraudulent financial reporting. This is an anomaly but it can happen because according to the explanation by Alwi, et, al. (2013), an independent audit committee from outside of the company had little knowledge about the company's business, which made it difficult to exercise supervision over the company.

Based on Table 4 above, it can be seen that the p-value variable Corporate Ethical Values (X2) is 0.000 fewer than 0.05. Therefore, the error rate of 5% was decided to reject Ho. So based on the test results, it can be concluded that the Corporate Ethical Values (X2) affect the tendency of Fraudulent Financial Statements (Y) with a coefficient path value of -0.475. The results of this study provide empirical evidence that the better the Corporate Ethical Values (X2), the lower the tendency of Fraudulent

Financial Statements (Y). From the data processing it is found out that without variableof Corporate Ethical Values (X2), the influence of function of the Audit Committee (X1) and Enterprise Risk Management (X3) on the tendency of Fraudulent Financial Statements (Y) by 0.234, so the value of f^2 for variable Corporate Ethical Values (X2) is 0.282, which means that the Corporate Ethical Values (X2) has some moderate/medium influence on the tendency of Fraudulent Financial Statements (Y).

Conclusion of the second study confirms the results of the research by Carpenters &Reimers (2005), which proved that ethical behavior influence the behavior of fraud, Green and Calderon (1999), Reinstein (1998) and the COSO (2010) which show that unethical behavior in the form of abuse of authority and power, position, and company resources, encourages the management to commit fraud accounting, Cohen, et al. (2010) who stated that the detection of fraud associated with unethical behavior management, Wilopo (2006) and Thoyibatun (2009) which show that unethical behavior have positive effect on the tendency of accounting fraud.

Based on Table 4 above, it can be seen that the p-value variable of Effectiveness of Enterprise Risk Management (X3) is 0.031 fewer than 0.05. Therefore, the error rate of 5% was decided to reject Ho. So based on the test results it can be concluded that the effectiveness of Enterprise Risk Management (X3) influence the tendency of Fraudulent Financial Statements (Y) with a coefficient path value of -0.253. The results of this study provide empirical evidence that the more effective Enterprise Risk Management (X3), the lower the tendency of Fraudulent Financial Statements (Y). From the data processing it is known that without variables Effectiveness of Enterprise Risk Management (X3), the influence of function of the Audit Committee (X1) and Corporate Ethical Values (X2) on the tendency of Fraudulent Financial Statements (Y) are by 0.339, so the value of f^2 for variable Effectiveness of Enterprise Risk Management (X3) is 0.106, which shows that the effectiveness of Enterprise Risk Management (X3) has some weak influence on the tendency of Fraudulent Financial Statements (Y).

The conclusion of this third study confirms the results of the study conducted by Cohen, et al. (2014) which proved that ERM has a significant impact on the quality of financial reporting and internal control powers. Results of research by Song & Kemp (2013) on public companies shows that companies with ERM program reported internal control weaknesses over financial reporting that less material compared to companies without the ERM program. A research by Helland & Garatun (2013) also concluded that a successful ERM program will benefit stakeholders including through the improvement and protection of earnings for ERM able to reduce the volatility of earnings. In other words, ERM make financial statements have better quality, because of the likelihood of fraudulent financial statements can be anticipated. Therefore, the implementation of effective ERM program would anticipate various risks including the risk of tendency of fraudulent financial statements.

6. CONCLUSION

Based on the phenomenon, the problem formulation, hypotheses and research results, the author infers the conclusions as follow:

The function of the audit committee has no effect on the tendency of fraudulent financial statements. This occurs because the function of the audit committee is not optimized as indicated by conditions that not all Indonesian Stock Exchange listed companies comply with Bapepam - LK regarding the Establishment and Implementation Guidance of the Audit Committee.

Corporate ethical values influence the tendency of fraudulent financial statements. That is, the better the corporate ethical values, the lower the tendency of fraudulent financial statements.

The effectiveness of enterprise risk management affect the tendency of fraudulent financial statements. That is, the more effective enterprise risk management, the lower the tendency of fraudulent financial statements.

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