THE ROLE OF THE AUDIT COMMITTEE AND EMPLOYEE WELL-BEING IN CONTROLLING EMPLOYEE FRAUD

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Abstract

Fraud is still a problem in the banking industry. Association of Certified Fraud Examiners (ACFE) reported that banks experienced the highest number of fraud cases compared to other types of businesses. This study aimed to demonstrate the effect of the audit committee's size, gender, expertise, independence, and employee well-being on employee fraud. The study on fraud uses questionnaire data to identify employee fraud (Fathi, Ghani, Said, & Puspitasari, 2017; Nawawi & Salin, 2018). We complement the previous study by using the number of cases as an indicator of employee fraud. Using a sample of 14 Islamic banks, we find that audit committee members' accounting expertise and employee well-being can influence employees' willingness to commit fraud. After overcoming the problem of endogeneity and robustness tests, the results of our study were consistent. The number of audit committee members, gender, and independence have not impacted fraud control. The expertise of the audit committee and employee well-being can be an effective internal control system in reducing fraud. This study adds to previous studies that have explained fraud by using employee perceptions and financial ratio indicators to detect director fraud. This study uses the number of employee fraud cases reported by the bank.

Keywords: Employee Fraud, Employee Well-Being, Audit Committee Gender, Audit Committee Expertise

Authors' individual contribution: Conceptualization — I.A. and I.J.; Methodology — I.A.; Validation — I.A., I.J., and Z.; Formal Analysis — I.A.; Investigation — I.A.; Resources — I.A.; Data Curation — I.A.; Writing — I.A., I.J., and Z.; Visualization — I.A.; Supervision — I.J. and Z.; Project Administration — I. A.

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1. INTRODUCTION

All organizations can suffer from fraud (Law, 2011). In 2020, the Association of Certified Fraud Examiners (ACFE) reported 2,504 cases of fraud with a $3.6 billion loss (ACFE, 2020). The Global Fraud Survey reported 1,388 occupational fraud cases in banks among these cases (Mukhibad, Jayanto, & Anisykurlillah, 2021), with a loss of $232,000 (Awang & Ismail, 2018). Cases by country show that the number of cases in Indonesia increased from 29 in 2018 to 36 in 2020 (ACFE, 2020; ACFE, 2018).

Fraud, which is an illegal act, occurs in religiously based businesses. Mukhibad (2017) and Mukhibad et al. (2021) reported cases of fraud occurring in Islamic banks in Indonesia. Fraud also happened to South African Islamic Bank, Ihlas Finance House, and Dubai Islamic Bank (Yusuf, Ahmad, & Razimi, 2016). A financial scandal occurred with Bank Islam Malaysia Berhad (BIMB) with a loss of RM 456 million (Rahman &

Anwar, 2014a). The fact that fraud occurs in Islamic banks is ironic (Mukhibad et al., 2021). The primary source of Islamic law, the Qur'an, prohibits four types of commercial activity: theft, fraud, unfair advantage, and engaging in generally prohibited activities (Ahmad, 2004). This case is the foundation of this study.

Previous studies on fraud in Islamic banks have primarily focused on financial statement fraud (Anisykurlillah, Jayanto, Mukhibad, & Widyastuti, 2020; Mukhibad et al., 2021; Awang, Abdul Rahman, & Ismail, 2019; Uciati & Mukhibad, 2019). This method identifies the disbursement of discretionary financing as an indicator of financial statement fraud.

Zuberi and Mzenzi (2019), Nawawi and Salin (2018), Said, Omar, Rafidi, and Syed Yusof (2018b), Said, Alam, Ramli, and Rafidi (2017), Fathi, Ghani, Said, and Puspitasari (2017), Omar, Nawawi, and Salin (2016), Zakaria, Nawawi, and Salin (2016), Manurung, Suhartadi, and Saefudin (2015) took a different approach to measure employee fraud, employing an interview data approach and a questionnaire. However, this approach is perceptual, making it difficult to identify cases of employee fraud accurately. Due to these weaknesses, this study takes a different approach to measure employee fraud, namely the number of fraud cases reported by each bank.

The main problem as a trigger for fraud in Islamic banks is the low internal control of the bank (Hamdani & Albar, 2016; Nawawi & Salin, 2018; Mukhibad, 2017). One of the efforts to improve internal control is corporate governance (Halbouni, Obeid, & Garbou, 2016; Zakaria et al., 2016). Furthermore, the corporate governance (CG) provides a structure for directing and controlling the business with greater efficiency, transparency, and accountability (Kumari & Pattanayak, 2017). Therefore, CG as a control can further reduce the potential for fraud (Law, 2011; Chen, Firth, Gao, & Rui, 2006; Farber, 2005). CG is a process in which all organs contribute to fraud detection and prevention (Halbouni et al., 2016), increasing transparency and accountability (Kumari & Pattanayak, 2017). Therefore, CG as control can reduce the possibility of fraud even further (Halbouni et al., 2016; Zakaria et al., 2016; Farber, 2005).

In line with the findings of previous studies (Hamdani & Albar, 2016; Nawawi & Salin, 2018; Mukhibad, 2017), this study emphasizes the audit committee as the primary factor in explaining fraud. The audit committee is an organ formed by the board of commissioners that oversees the bank's operations and internal control processes in the CG structure of a company that uses a two-tier system, such as Indonesia. Several other studies (Nasir, Ali, & Ahmed, 2019; Marzuki, Haji-Abdullah, Othman, Wahab, & Harymawan, 2019; Deloitte, 2018; Law, 2011) have also proven that the effectiveness of the audit committee's role in supervision can control fraud.

The differences between this study and the previous ones are: first, it uses the number of real cases of employee fraud reported by banks as an indicator of fraud. Second, this study focuses on the audit committee's role using various indicators, such as the number of members, expertise, gender, accounting expertise, and independence. Third, this study adds employee well-being as a factor that can lead to employee financial problems and encourage employees to commit fraud.

We present this study in 6 interrelated sections. Section 1 explains the background of the study. Section 2 describes the literature review and hypotheses. Section 3 describes the methodology. Section 4 describes the research results. Section 5 describes the discussion and Section 6 describes the conclusion.

2. LITERATURE REVIEW

2.1. The theory of fraud

The main theory in explaining fraud is the fraud triangle theory (FTT) (Vousinas, 2019). This FTT was introduced by Donald R. Cressey in 1950 (Saluja, Aggarwal, & Mittal, 2021; Murphy & Free, 2016). FTT explained that fraud occurs due to pressure/motivation, opportunity, and rationalization (Saluja et al., 2021). Pressure is a financial need that cannot be shared. Fraud perpetrators will take criminal action when they have a financial need, and cannot solve it. Pressure can also be in the form of difficulties that motivate someone to commit fraud (Saluja et al., 2021). Anindya and Adhariani (2019), and Lou and Wang (2009) found that pressure is the main factor for perpetrators to commit fraud.

The second factor in FTT is opportunity. Opportunity is the perception of perpetrators that they will be able to commit fraud. Following, actors who have financial pressure will not commit fraud if they do not have the opportunity to commit fraud (Vousinas, 2019). Suh, Nicolaides, and Trafford (2019), and Abdullahi and Mansor (2018) have proven that opportunity is a fraud factor.

The third factor in FTT is rationalization is the moral of the perpetrator who convinces the fraudster that his/her illegal behaviour can be justified (Peltier-Rivest, 2018). This rationalization will help perpetrators to hide from their wrongdoings (Said, Alam, Karim, & Johari, 2018a).

FTT is a traditional theory for explaining fraud, so the researcher considers that the fraud model has become an extension of the fraud triangle and reviews the factors that drive corporate fraud (Saluja et al., 2021). For this reason, new theories emerged to complement the FTT. New theories that emerged after the FTT were fraud scale, GONE, diamond theory, pentagon theory, ABC model, MICE model and SCORE model (Saluja et al., 2021; Vousinas, 2019). Following Anindya and Adhariani, (2019), we consider that these fraud development theories are based on FTT. This reason is the basis (Zuberi & Mzenzi, 2019; Said et al., 2017; Mustafa Bakri, Mohamed, & Said, 2017; Nawawi & Salin, 2018; Fathi et al., 2017; Kassem & Higson, 2012; Said et al., 2018a; Zakaria et al., 2016) used FTT in explaining fraud.

2.2. Employee fraud

The type of fraud in Islamic banks was disclosed by Anisykurlillah et al. (2020), and Rahman and Anwar (2014b). Said et al. (2017) surveyed 108 employees from the three largest banks in Malaysia. Their findings are that ethical values are negatively related to employee fraud, and two elements of FTT (opportunity and rationalization) are the cause of employee fraud.

Zakaria et al. (2016) examined employee fraud in oil and gas companies by using interviews with perpetrators. They found that internal control was a major factor in committing fraud. This low level of internal control is characterized by poor supervision and inappropriate documentation processes. Fraud is also perpetrated by several people who work together to commit illegal acts.

Zuberi and Mzenzi (2019) examined fraud by distributing questionnaires to 114 respondents from fraud examiners, managers and business owners, victims, auditors, lawyers, and law enforcement agents. They report six factors motivating employees and managers to engage in fraudulent behaviour, including business financial strain, social incentives and pressures, greed, operating problems, internal pressure, and a bad work environment. From an institutional perspective, fraud occurs because of a poor control environment, inadequate control activities, and circumstances that allow collusive behaviour among fraudsters

Based on this research, we can summarize those two main factors that encourage employees to commit fraud. The first is a weak internal control system. A weak internal control system causes weak supervision and increases the opportunity for employees to commit fraud. In the institutional structure, improving the internal control system can be done with CG (Halbouni et al., 2016; Zakaria et al., 2016), especially the role of the audit committee in creating the company's internal control system. Previous studies also strengthen this argument that the effectiveness of the audit committee can prevent employees from committing fraud (Nasir et al., 2019; Marzuki et al., 2019; Deloitte, 2018; Law, 2011).

The second factor is the impetus of financial problems. Employees' financial problems can also be caused by unfair salary policies (Zhang, Wang, & Kong, 2019), dissatisfaction with salaries (Rebellon, Piquero, Piquero, & Thaxton, 2009), and low remuneration (Nawawi & Salin, 2018). Companies that treat their employees fairly are less likely to commit fraud (Zhang et al., 2019). This is because the assessment of salary equality and compensation received for the work done greatly affects the perception of fairness and fairness in the organization (Kennedy, 2018).

2.3. Hypotheses

Employees/managers/executives in a company can commit fraudulent acts that harm the company (occupational fraud) (Suh, Shim, & Button, 2018). FTT views that those who have special access within the entity have the opportunity to take actions that will benefit themselves. The audit committee has access to internal and external audit processes; therefore, the audit committee is the first organ to identify irregularities within the company (Halbouni et al., 2016).

Deviations in companies are influenced by individual factors and systemic actions involving the company's control system. Weak control systems can create opportunities for employees to commit illegal acts. Fraud cases occur in organizations with a weak system of internal control (Halbouni et al., 2016; Zakaria et al., 2016; Farber, 2005). Therefore, strengthening the control system can help to reduce fraud (Nasir et al., 2019; Marzuki et al., 2019; Deloitte, 2018; Law, 2011). Todorović, Tomaš, and Todorović (2020) advise businesses to develop an effective system to control fraud by strengthening integrity and having zero tolerance for fraud. As the banking regulator in Indonesia, the Financial Services Authority (OJK) states that the audit committee has the task of monitoring and ensuring the effectiveness of the internal control system and the implementation of the duties of internal auditors and independent/external auditors. Thus, the audit committee has an essential role in controlling the potential for fraud in a company (Tan, Chapple, & Walsh, 2017; McLaughlin, Armstrong, Moustafa, & Elamer, 2021; Rezaee, 2005). FTT views that minimizing opportunities by strengthening the internal control system is the main key to controlling employee fraud in Islamic banks (Hamdani & Albar, 2016; Nawawi & Salin, 2018; Mukhibad, 2017). Our main study is evaluating the internal control system by evaluating the effectiveness of the audit committee results.

One indicator that can improve the quality of the audit committee in carrying out its duties is the number of members (Wilbanks, Hermanson, & Sharma, 2017; Farber, 2005). Entities with many audit committee members can improve supervision consistency (Wilbanks et al., 2017). The audit committee requires significant board resources to fulfil its responsibilities effectively (Persons, 2009). A more significant number of audit committees can bring the expertise and knowledge of the board (Wilbanks et al., 2017). The effectiveness of internal control supervision is associated with a large number of audit committee members so that the number of audit committees can control fraud (Wilbanks et al., 2017; Persons, 2009; Farber, 2005).

H1: The number of audit committee members negatively affects employee fraud.

Another indicator used by researchers in explaining the audit committee's effectiveness in conducting oversight is gender. Differences in attitudes, communication styles, personality, activeness in meetings, intolerance to opportunistic behaviour and risk aversion policies, increasing monitoring roles, being more conservative, and making more ethical decisions result from gender differences (McLaughlin et al., 2021; Marzuki et al., 2019; Oradi & Izadi, 2020). Gender differences cause differences in attitudes and policies, which is why researchers use gender as a factor that can affect the quality of corporate governance, including the effectiveness of audit committee outcomes (McLaughlin et al., 2021; Ud Din et al., 2021; Oradi & Izadi, 2020; Marzuki et al., 2019). The female audit committee is considered capable of increasing the audit committee's effectiveness. Female audit committees have been shown to reduce income management (Gavious, Segev, & Yosef, 2012), reduce financial restatements (Oradi & Izadi, 2020), and improve the quality of financial reports (Ud Din et al., 2021). Female audit committee members are more likely to report involvement in audit committee activities to evaluate management integrity (Wilbanks et al., 2017). Kaplan, Pany, Samuels, and Zhang (2009) found that females were more likely to report fraudulent financial reporting than males.

H2: Female audit committee negatively affects employee fraud.

The board of commissioners is an element that must be formed by companies in Indonesia based on Financial Services Authority (OJK) (2015). The existence of a board of commissioners will bridge the principal's interests and perform a supervisory function on the performance of the company's directors. Based on OJK (2015), members of the audit committee formed must have an educational background and minimum expertise in accounting or finance. Another regulation states that members of the audit committee must also have expertise in auditing (OJK, 2020). The presence of audit committee members with diverse backgrounds will help them be more precise in carrying out their duties and authorities. Fraudulent practices will be avoided and detected as soon as possible so that they do not escalate into detrimental cases to the company, eliminating the opportunity for employees to engage in fraudulent practices within the company. Persons (2009) contends that the expertise of audit committee members, especially accounting and finance, is vital to limit the actions of managers in earnings manipulation and other unethical actions. Cohen, Hoitash, Krishnamoorthy, and Wright (2014) discovered that audit committee members who combined accounting expertise with other skills performed better, increasing the audit committee's effectiveness. Therefore, members of the audit committee who have varied expertise will be able to prevent fraudulent practices. Anisykurlillah et al. (2020), Marzuki et al. (2019), and Farber (2005) have provided evidence that audit committees with an accounting education background have a negative influence on fraud.

H3: The expertise of audit committee members in accounting negatively affects employee fraud.

Employees/managers/executives with certain levels of access in the company can take actions that will benefit them. The audit committee plays an essential role in reducing the likelihood of fraud in a company. The task of the audit committee is a delegation from the board of commissioners to carry out the functions that shareholders should carry out. Based on membership, the audit committee has a minimum of 3 people consisting of independent commissioners and parties outside the company (OJK, 2015). Strong control and supervision can be carried out if the audit committee members can maintain their independence. The independence of the audit committee can provide an increase in the monitoring of internal control and the quality of financial reports (Barua, Rama, & Sharma, 2010). The audit committee's independence will increase when it is filled with many outside parties who have no relationship with the company, allowing them to carry out their duties optimally and, as a result, protect the company from fraud. Persons (2005) argued that it is unlikely that fraud will occur if the audit committee is independent. Abbott, Park, and Parker (2000) found that companies with independent audit committees indicated by the composition of outsiders according to the threshold will make companies avoid fraudulent practices. Uzun, Szewczyk, and Varma (2004) found that audit committee independence can significantly reduce fraud.

H4: The independence of the audit committee negatively affects employee fraud.

Because the focus of this study is employee fraud, individual employee factors must be considered in explaining fraud. Kang and Lee (2021), Mariani, Gigli, and Bandini (2019), and Heyman (2007) emphasize employee well-being as a factor that affects employee motivation, and performance. In line with Bales and Fox (2011), fraud is an act of deception committed by employees and management to benefit themselves, so financial difficulties can lead to employees' intent to commit fraud.

There are two perspectives in looking at well-being, focusing on subjective experiences of happiness and the other side focusing on realizing the power of human potential, which considers well-being to be the result of personal achievement (Ryan & Deci, 2001). Work-related well-being is defined as the overall quality of an employee's experience and functioning at work (Fich & Shivdasani, 2007). One of the things that can be used to measure employee well-being is the amount of salary they receive (Wood & de Menezes, 2011).

Employees who are paid a fair wage will work hard and strive to meet the company's goals. They do not want to commit fraud against the company because their salary needs have been met. This demonstrates that there is no sense of pressure when doing work, as evidenced by the compensation received, which is proportional to the weight of the work. Employees are motivated to commit fraud by lifestyle and financial pressures (Omar et al., 2016).

An essential factor in FTT is the pressure that comes from the financial condition of employees (Saluja et al., 2021). Financial problems will encourage employees to find ways to solve them through illegal behavior. Studies from Zakaria et al. (2016), Zuberi and Mzenzi (2019), Zhang et al. (2019), Rebellon et al. (2009), and Nawawi and Salin (2018) position the issue of salary, allowance, and remuneration to be factors of employees committing fraud. Unfair salary and remuneration systems lead to salary dissatisfaction, and employees feel they are being treated unfairly (Kennedy, 2018) and encouraged to commit fraud. Zuberi and Mzenzi (2019), Chen and Sandino (2012), Irianto, Novianti, Rosalina, and Firmanto (2012) found that wages have a negative effect on the level of employee fraud and higher wages increase the promotion of social norms among employees and reduce collusion between them.

H5: Employee welfare negatively affects employee fraud.

3. RESEARCH METHODOLOGY

This study uses Islamic banks in Indonesia as the object of research with 14 banks. Islamic banks that use Islamic law prohibit fraud (Ahmad, 2004). However, previous studies indicate fraud in Islamic banks (Anisykurlillah et al., 2020; Mukhibad, 2017). We use all Islamic banks because all banks provide the data required by this study. All samples were observed for 11 years (2010–2020). All data are manually identified from each bank's annual report, and annual reports are obtained from the website of each bank. From these 14 Islamic banks, we obtained all the annual reports but with incomplete timelines. This is due to the existence of a bank that was established in the year of observation. So we use unbalanced data with the number of units of analysis 142.

This study employs a different type of fraud measurement than previous studies. We do not use perceptions or financial ratios as fraud indicators because both can result in response bias. Response bias can occur in business ethics researchers (Miyazaki & Taylor, 2008), including fraud research. As a result, the number of employee fraud cases reported by banks in their annual reports for one year is used in this study. Because not all banks reported the number of frauds based on our search results, the unbalanced data method was chosen, with 142 bank-year observations.

This study emphasizes the audit committee's effectiveness as a variable that can explain employee fraud. Employee fraud (*FRAUD*) is measured by the ratio of fraud cases number to the number of employees. The first indicator is the number of audit committee members (*AC-SIZE*) as measured by the number of audit committee members owned by the bank (Wilbanks et al., 2017; Persons, 2009; Farber, 2005). The second indicator is audit committee gender as measured by the ratio of female audit committees (*AC-GENDER*) to the number of audit committee members (Wilbanks et al., 2017; Kaplan et al., 2009). The third indicator is the expertise of the audit committee (*AC-EXPERT*) as measured by the ratio of the audit committee with an educational background in accounting (Anisykurlillah et al., 2020; Marzuki et al., 2019; Farber, 2005). The fourth indicator is the independence of the audit committee (*AC-INDEP*) as measured by the ratio of the independent audit committee to all members of the audit committee (Park, 2020; Nasir et al., 2019). The employee well-being factor (*WAGE*) is measured by the ratio of the cost of salaries and employee allowance to loan income. *WAGE* was developed by (Damiani, Pompei, & Ricci, 2019).

In addition to the main variables above, this study uses control variables for the number of commissioners, company size, and financial performance. Indonesia uses a two-tier system, where supervisory duties are assigned to the board of commissioners, and executive duties are assigned to directors. Regulators in Indonesia require that the audit committee be formed by the board of commissioners, so the number of commissioners affects the quality of the audit committee. Many board members allow them to diversify their expertise, experience, and other individual backgrounds, affecting the quality of the board's collective decisions. Thus, in line with Chen et al. (2006) study, the number of board members is used as a control variable. The number of members of the board of directors (*BODSIZE*) is measured by the number of members of the board of commissioners. Total assets (*SIZE*) are measured by the natural logarithm of total assets, financial performance is measured by return on assets (*ROA*), and loan ratio (*LOAN*) is measured by loan to assets ratio. These three variables were adopted from Hass, Tarsalewska, and Zhan (2016), Matoussi and Gharbi (2011), and Goh (2009). We added the variable number of members of the Shariah Supervisory Board (*SSBSIZE*) to the research model for the robustness test. Our reasoning is the object of our research in Islamic banks that have *SSBSIZE* as an additional board that oversees the bank's policies to comply with shariah (Nomran & Haron, 2019). Indirectly, fraud is an act that is not by shariah and *SSBSIZE* has a role in controlling fraud (Anisykurlillah et al., 2020).

The data analysis technique is a quantitative approach that employs panel data regression analysis with a fixed effect model (FEM) or a random effect model (REM). The selection is based on the results of the Hausman test (Meslier, Risfandy, & Tarazi, 2017). If the Hausman test results in a probability less than 0.05, FEM is used; otherwise. The Breusch and Pagan Lagrange Multiplier test (BPL) is used to determine whether there was data heterogeneity between banks (Panda & Nanda, 2018). If the BPL test yields a probability of less than 0.05, there is data heterogeneity between banks, which necessitates the use of FEM or REM. This study tested for multicollinearity, heteroscedasticity, and autocorrelation to produce a BLUE study. The research model is as follows:

$$\begin{gathered} FRAUD_{i,t,c} = \\ \beta_0 + \beta_1 AC\text{-}SIZE_{i,t,c} + \beta_2 AC\text{-}GENDER_{i,t,c} + \\ \beta_3 AC\text{-}EXPERT_{i,t,c} + \beta_4 AC\text{-}INDEP_{i,t,c} + \\ \beta_5 WAGE_{i,t,c} + \beta_6 COMSIZE_{i,t,s} + \beta_7 LNSIZE_{i,t,s} + \\ \beta_8 ROA_{i,t,s} + \varepsilon \end{gathered} \quad (1)$$

4. RESULTS

Table 1 shows that our sample has an average of 0.214% of employees who are involved in illegal acts. The highest percentage of employees involved with fraud was 3.226, and the lowest was 0. The standard deviation of 0.453 demonstrates the large variance of this fraud. Islamic banks in Indonesia have an average of 3.78 audit committee members, a minimum score of 2 people and a maximum number of 7 people. These results indicate the tendency of Islamic banks to have 3 to 4 members of the audit committee.

Table 1. Descriptive analysis

Variables	*Measurement*	*Obs.*	*Mean*	*Std. dev.*	*Min*	*Max*
FRAUD (%)	%	142	0.214	0.453	0	3.226
AC-SIZE	Person	142	3.789	1.077	2.000	7.000
AC-GENDER (%)	%	142	11.808	0.173	0	66.667
AC-EXPERT (%)	%	142	25.317	36.033	0	100.00
AC-INDEP (%)	%	142	54.316	16.700	23.077	100.00
WAGE (%)	%	142	21.480	12.785	0.008	80.003
BODSIZE	Person	142	10.951	2.057	5.000	17.000
SIZE	Log. Natural	142	29.694	1.487	24.240	32.474
ROA (%)	%	142	0.961	3.272	-14.042	13.600
LOAN (%)	%	142	3.427	1.547	-4.933	10.134
Public	Dummy	142	0.135	0.343	-	1.000
SSBSIZE	Person	142	2.317	0.467	2.000	3.000

Based on its structure, the audit committee members are dominated by males. Only 11.808% of the audit committee are females. However, some banks have a female audit committee of 66.667%. Table 1 also shows that 25.317% of audit committees have accounting expertise on average. However, there is an audit committee that does not have accounting expertise. In addition, on average, 54.316 per cent of audit committees are independent. The minimum score of *AC-INDEP* is 23.077%, with a maximum score of 100% being independent. These results indicate that most of the audit committee members in Islamic banks are independent. *WAGE* shows that banks provide an average of 21.480% of loan income to pay employee salaries and allowances. Maximum 80.003% of income to pay employee salaries.

The Breusch and Pagan Lagrange Multiplier test resulted in a probability of 0.0321 (less than 0.05) and indicated heterogeneity of the data between banks. This score recommends a panel regression test (fixed effect or random effect). Then, we perform the Hausman test, produce a probability of 0.000 (less than 0.005), and recommend the fixed effect as a model to answer the hypothesis.

Next, we test the correlation between variables as shown in Table 2 below:

Table 2. Correlation matrix of all independent variables

	AC-SIZE	***AC-GENDER***	***AC-EXPERT***	***AC-INDEP***	***WAGE***	***BODSIZE***	***SIZE***	***ROA***	***LOAN***	***Public***	***SSBSIZE***
AC-SIZE	1										
AC-GENDER	-0.210	1									
AC-EXPERT	-0.075	-0.090	1								
AC-INDEP	0.007	0.398	-0.429	1							
WAGE	0.329	-0.034	-0.102	0.075	1						
BODSIZE	0.038	-0.193	0.025	-0.568	-0.066	1					
SIZE	0.053	-0.213	0.228	-0.254	-0.400	0.273	1				
ROA	-0.002	-0.126	0.033	0.009	0.001	0.104	0.099	1			
LOAN	0.032	-0.138	0.305	-0.187	-0.190	0.135	-0.040	-0.073	1		
Public	0.157	-0.013	-0.266	-0.169	0.091	0.558	0.168	0.336	0.122	1	
SSBSIZE	0.022	-0.251	0.473	-0.320	-0.140	0.124	0.319	-0.054	0.201	-0.181	1
VIF	1.29	1.65	2.21	2.43	1.73	2.45	1.9	1.37	1.53	2.6	1.52
1/VIF	0.777	0.605	0.453	0.411	0.577	0.407	0.527	0.731	0.651	0.384	0.656

Table 2 shows that the highest correlation is 0.4521 between expertise and the number of commissioners. Table 2 shows no correlation more than 0.8, which shows no multicollinearity. This conclusion is supported by the VIF test, which yielded an average value of 1.58 (less than 5), indicating no multicollinearity problem.

The Modified Wald test produces a probability of 0.0000 (less than 0.05) and indicates a heteroscedasticity problem. The Wooldridge test yields a probability of 0.0207 (less than 0.05) and indicates an autocorrelation problem. To overcome this problem, in line with Almutairi and Quttainah (2017), we use clustered regression in conjunction with the fixed-effects estimator to address these two issues.

The results of the fixed effect test (Table 3) equations of models 1 to 6 consistently show that *AC-SIZE* produces a p-value of more than 0.10. These results indicate that the number of audit committee members does not affect fraud. The *AC-GENDER* variable also consistently produces a p-value of more than 0.10. This test consistently shows that the female audit committee does not influence fraud. Table 3 shows that *AC-EXPERT* consistently produces a p-value less than 0.01 with a coefficient of -0.0205. These results indicate that the expertise of the audit committee negatively affects fraud with a significance level of 1%. The third audit committee indicator is the independence of the audit committee. Table 3 shows that *AC-INDEP* consistently produces a p-value of more than 0.1 and shows that the independence of the audit committee does not affect fraud.

The employee well-being indicator, which is proxied by salary and employee benefits, consistently produces a p-value of less than 0.05 and a coefficient of -0.7438. These results indicate that employee well-being negatively affects fraud, with a significance level of 5%.

Table 3. Fixed effect and system GMM Uji test results

Variables	*FE Model 1*		*FE Model 2*		*FE Model 3*		*FE Model 4*		*FE Model 5*		*FE Model 6*		*System GMM*	
	Robust (Coef.)	***Std. error***	***Robust (Coef.)***	***Std. error***	***Robust (Coef.)***	***Std. error***	***Robust (Coef.)***	***Std. error***	***Robust (Coef.)***	***Std. error***	***Robust (Coef.)***	***Std. error***	***Robust (Coef.)***	***Std. error***
Lag 1. Fraud	-	-	-	-	-	-	-	-	-	-	-	-	0.1858	0.1876
AC-SIZE	0.1295	0.1432	-	-	0.1539	0.1543	0.1785	0.1603	0.1155	0.1427	0.1250	0.1429	0.2144	0.1882
AC-GENDER	-1.2280	1.5614	-1.6777	1.6028	-	-	0.4467	1.4250	-1.4355	1.5922	-1.4670	1.1076	-4.0016	1.5490**
AC-EXPERT	-0.0205***	0.0042	-0.0218***	0.0058	-0.0183***	0.0059	-	-	-0.0209***	0.0047	-0.0161***	0.0036	-0.0214	0.0039***
AC-INDEP	-0.0120	0.0098	-0.0104	0.0096	-0.0133	0.0106	-0.0135	0.0111	-	-	-0.0117	0.0098	-0.0205	0.0159
WAGE	-0.7438**	0.2630	-0.6609**	0.3014	-0.6693**	0.2496	-0.7688**	0.2980	-0.7037**	0.2793	-	-	-1.4325	0.4563**
COMSIZE	-0.0062	0.1434	-0.0172	0.1475	-0.0038	0.1372	-0.0149	0.1401	-0.0202	0.1530	-0.0048	0.1354	0.0927	0.1751
LNSIZE	0.1265***	0.0291	0.1429***	0.0292	0.1193***	0.0314	0.1224***	0.0299	0.1236***	0.0257	0.1192***	0.0276	0.1075	0.0366**
ROA	-0.0073**	0.0029	-0.0080**	0.0029	-0.0070**	0.0031	-0.0077**	0.0033	-0.0076**	0.0031	-0.0059*	0.0027	-0.0083	0.0044**
Cons	-0.5439	1.9058	-0.4281	1.9076	-0.6621	1.7441	-1.4210	1.6903	-0.8868	1.6484	-0.7199	1.7697	0.2718	1.2150
R-Square	-	0.2130	-	0.2022	-	0.2074	-	0.1451	-	0.2041	-	0.2058	-	0.4280
Sargan	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0000
Arellano-Bond test	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1370

*Note: *** sig. at 1%, ** sig. at 5%, * sig. at 10%.*

Tan et al. (2017) identified endogeneity in fraud culture. Following Ullah, Akhtar, and Zaefarian (2018), we used system generalized method of moments (GMM) estimator to reduce omitted variable and endogeneity bias. Table 3, column 8 shows that lag 1 fraud produces a p-value of more than 0.1. These results indicate that there is no endogeneity in fraud. Therefore, the fixed effect test results on models 1 to 6 are valid to be used to answer the hypothesis.

5. DISCUSSION

The first hypothesis test demonstrates that the number of audit committee members is insufficient to control employees' willingness to commit fraud. Banks with many audit committee members benefit because they can elect audit committee members with diverse backgrounds. The diversity of board backgrounds is essential in human resource theory because these different backgrounds will provide different alternatives to a policy and will further improve the quality of bank policy decisions. Many members are also advantageous because each board will bring expertise and knowledge (Wilbanks et al., 2017), thus enriching the bank's resources. Moreover, to carry out its duties effectively, the audit committee requires quality board resources (Persons, 2009). However, a large number of board members frequently have communication issues, and poor coordination causes performance to suffer (Najwa, Ramly, & Haron, 2019; Guest, 2009). Another negative impact of large boards is social laziness, which requires higher coordination costs. Board decisions are collective decisions, so the effectiveness of coordination and communication is the key to effective decision-making. The results of this study lead to problems of coordination and communication among members of the audit committee, so it will impact their ineffectiveness in controlling and evaluating the bank's internal control system.

The second indicator in measuring the committee's effectiveness in carrying out its duties is gender. Banks with female boards are considered advantageous because women tend to be more active in meetings, intolerant of opportunistic and risk-averse behaviour, more conservative, and make more ethical decisions (McLaughlin et al., 2021; Marzuki et al., 2019; Oradi & Izadi, 2020). Female audit committees can also improve the quality of corporate governance and the effectiveness of audit committees (McLaughlin et al., 2021; Ud Din et al., 2021; Oradi & Izadi, 2020; Marzuki et al., 2019). Moreover, Wilbanks et al. (2017) and Kaplan et al. (2009) argue that females contribute to controlling fraud because they are more likely to report fraudulent financial reporting. However, in the context of Islamic banks in Indonesia, this study did not find the effectiveness of the role of the female audit committee in controlling fraud. This finding indicates there is a tendency that there is no difference in performance between female and male audit committees. Reporting activities for potential fraud are fraught with intimidation and threats from perpetrators, making this action extremely dangerous for women. When women see the possibility of fraud for their safety, they tend to be more conservative. This evidence also supports the findings of Bruna, Dang, Scotto, and Ammari (2019), Loukil and Yousfi (2016) that women tend to avoid risk.

The results for the indicator of accounting expertise of audit committee members revealed that the board's expertise had a significant negative effect on employee fraud. Accounting experts on audit committees have proven to be effective in reducing fraud. The findings of this study support the views of Persons (2009), Anisykurlillah et al. (2020), Marzuki et al. (2019), and Farber (2005), who emphasize the importance of accounting expertise for audit committees. Accounting expertise is the main factor of the audit committee in evaluating the effectiveness of the bank's internal control and tracking irregular transactions. However, Cohen et al. (2014) proposed that the audit committee combine accounting expertise with other skills to increase the effectiveness in detecting fraudulent practices.

Table 3 also shows that the independence of the audit committee does not affect fraud. The findings of this study differ from those of Barua et al. (2010), Persons (2006), and Uzun et al. (2004), who discovered that audit committee independence increases supervision and, as a result, fraud control. Monitoring will be more effective if it is carried out by a committee of independent auditors (Barua et al., 2010). However, in Indonesian Islamic banks, many audit committee members are independent. This independent audit committee frequently brings up the issue of their availability to carry out their supervisory duties. This audit committee will share the resources it has for all entities because it allows them to be on the audit committee or the equivalent board of other entities. This factor will further degrade the audit committee's performance.

The perpetrator factor, as measured by the perpetrator's well-being, shows that employee well-being negative influences fraud. According to the fraud triangle theory, one main reason employees commit fraud is the financial incentive to commit fraudulent acts. This employee's financial stress may be caused by their way of life as well as the low salary they receive (Omar et al., 2016). Employees who meet their financial needs with sufficient salaries will work well and try to consistently meet the targets set by the company and avoid illegal actions. In addition, the salary appraisal eliminates the feeling of pressure because receiving the compensation is commensurate with the work. The lifestyle and financial pressures faced by employees motivate employees to commit fraud (Omar et al., 2016). This study confirms the findings of Zuberi and Mzenzi (2019), Chen and Sandino (2012), and Irianto et al. (2012), which found that employee salaries have a negative effect on the level of fraud.

5.1. Endogeneity and robustness tests

Endogeneity problems can occur in research that focuses on fraud culture (Tan et al., 2017). Endogeneity issues can arise when the previous year's fraud affects the current year's fraud. This is possible if the bank director does not implement policy changes to reduce fraud by strengthening the internal control system. As a result, we followed the advice of Ullah et al. (2018) and used the GMM test to overcome the problem of endogeneity. Table 3 shows the results of the GMM test, which show that the previous year's fraud did not affect the current year's fraud. Therefore, it can be concluded that there is no problem with the endogeneity of the research model.

Table 4. Robustness test

Variables	*FE*		*System GMM*	
	Robust (Coef.)	***Std. error***	***Robust (Coef.)***	***Std. error***
Lag 1. Fraud	-	-	0.171	0.188
AC-SIZE	0.128	0.144	0.231	0.184
AC-GENDER	-1.241	1.571	-4.023	1.467**
AC-EXPERT	-0.020	0.005***	-0.021	0.004***
AC-INDEP	-0.006	0.012	-0.017	0.021
WAGE	-0.716	0.240**	-1.203	0.418**
COMSIZE	0.008	0.149	0.066	0.175
LNSIZE	0.131	0.033***	0.114	0.023***
ROA	-0.007	0.003*	-0.008	0.005
LDR	0.176	0.091*	0.189	0.312
Cons	-1.932	2.572	-0.908	2.448
R-Square		0.2284		0.4429
Sargan				0
Arellano-Bond test				0.1227

*Note: *** sig. at 1%, ** sig. at 5%, * sig. at 10%.*

We also conducted a robustness test by adding a loan to deposit ratio (*LDR*) variable as a factor that can increase fraud; this is following the findings of Sanusi, Rameli, and Isa (2015), who discovered that cases of banking fraud can be carried out through the misuse of credit. After adding the *LDR*, the results showed that audit committee expertise and employee well-being significantly controlled fraud (Table 4). This result was also confirmed by the GMM test which showed no endogeneity problem. As a result, our findings are consistent in that the audit committee's expertise and employee well-being can control employees who commit fraud.

6. CONCLUSION

This study is to prove the effectiveness of the number of members, gender, expertise, independence of the audit committee and employee well-being on employee fraud. The results of this study prove that the expertise of the audit committee in accounting and employee well-being has a negative influence on employee fraud. We found no evidence of the role of the number of members, gender, and independence of the audit committee on employee fraud. After conducting the SYS GMM test to overcome problems and robustness, the results of this study are consistent in that employee fraud can be controlled by increasing the audit committee with accounting expertise and increasing employee well-being. Accounting experts on the audit committee can improve oversight and strengthen the bank's internal control system. Employee well-being can be used as an internal control system in which increasing employee well-being reduces employee financial pressure and thus controls them to commit deviant behaviour.

The study's contribution is to take the bank's expertise into account when selecting members of the audit committee. The audit committee selected should have accounting expertise. This expertise can increase the audit committee's effectiveness in carrying out its duties, especially in controlling fraud. Regulators can encourage banks to increase the ratio of audit committees with accounting expertise through the issuance of laws or regulations that are binding on banks. Banks can improve the internal control system by improving the audit committee's quality and improving employee well-being.

This study uses Islamic banks as the object of research. The limitations of this study ignore the corporate governance structure, which may have unique characteristics and differ from conventional banks. Previous studies have had the effect of adding a special corporate governance structure for Islamic banks to produce a more comprehensive discussion.

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