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GOVERNANCE GAPS AND AUDIT QUALITY IN HIGH-VALUATION START-UP (CASE ANALYSIS OF ALLEGED EFISHERY FINANCIAL REPORT MANIPULATION)

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Abstract

Governance gaps in high-value startups often stem from an imbalance between business growth ambitions and the integrity of internal oversight. This study analyzes the impact of governance gaps on fraud risk through the mediating role of audit quality, using a case study of alleged financial statement manipulation at eFishery during the 2024–2025 period. Using a quantitative PLS-SEM approach based on SmartPLS on data from 114 auditor respondents in Indonesia, the results show that governance gaps do not have a significant direct effect on fraud risk, but do have a significant positive effect on audit quality. Audit quality fully mediates this relationship. These findings underscore the critical role of auditor independence and skepticism as the last line of defense. Implications: Regulators and management need to strengthen audit quality alongside governance reforms to ensure ethical business sustainability.

Keywords: ***Corporate Governance, Fraud Risk, Startups, Audit Quality***

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INTRODUCTION

The startup industry in Indonesia is experiencing rapid growth, driven by the acceleration of digitalization and increasing investment flows from both international and domestic financial institutions (PwC Indonesia, 2023). Indonesia's startup industry is projected to have 7 unicorns valued at US$11.43 billion by 2025, yet 90% fail due to weak governance (Integrity Indonesia, 2025; Jokowi, 2022). Recently, the Indonesian startup world was shocked by allegations of financial statement fraud involving PT Multidaya Teknologi Nusantara (eFishery). eFishery is an aquaculture startup that provides automated fish feeders and e-commerce solutions for the fisheries sector (Aditya & Musyarri, 2025). eFishery (valued at US$1.3 billion) came under scrutiny due to allegations of financial statement manipulation through dual reporting for the 2024–2025 period, falsifying 75% of its revenue from US$752 million to US$157 million (CNBC Indonesia, 2024).

The information contained in financial statements plays a crucial role for stakeholders (Agustin et al., 2025). The presentation of financial information must reflect the actual situation, as it influences decision-making (Hermanto, 2021). However, in reality, some companies occasionally engage in fraud by manipulating financial statements to achieve favorable financial performance (Khikmah et al., 2024). Fraud cases in Indonesia are rising at an alarming rate, threatening economic stability and public trust (Lubis et al., 2025). Efishery engaged in dual reporting, which was detected by internal auditors, reflecting failures in governance and oversight (Agustin et al., 2025). Weak internal audits at startups erode investor confidence, trigger regulatory sanctions, and disrupt operations (Prayoga et al., 2025). Interestingly, routine audits conducted by leading accounting firms such as PwC and Grant Thornton failed to detect signs of fraud risk, yet a whistleblower triggered the exposure of this scandal (Integrity Asia, 2026). Girau et al. (2022) demonstrated that companies with weak governance in Malaysia failed

to survive the Asian financial crisis. The Theranos scandal (Carreyrou, 2018) demonstrated similar governance failures in detecting internal irregularities, underscoring the vulnerability of high-valuation tech companies to systemic fraud.

This study aims to analyze governance practices and audit quality in relation to fraud risk in the case of the eFishery scandal in Indonesia using a quantitative approach. Thus, the relationship between governance gaps, audit quality, and fraud risk is an important issue to examine empirically, particularly in high-valuation startup companies. This study is expected not only to contribute to the development of literature in the fields of financial management and auditing but also to provide practical implications for various stakeholders, including investors, regulators, and company management, in efforts to strengthen governance and improve audit quality to minimize fraud risk..

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Governance Gaps

Governance is a set of mechanisms, processes, and relationships through which a company is operated and controlled (Ghozali, 2020). Corporate governance refers to the decisions made by a company to enhance relationships and interactions with its various stakeholders (Tanjaya & Kwarto, 2022). The phenomenon of governance gaps reflects a mismatch between rapid business growth and the readiness and strengthening of internal oversight mechanisms. Limited engagement of senior management in monitoring financial operations is one of the factors contributing to governance deficiencies. According to Hazaea et al. (2023), senior management frequently participates in audit and internal control activities. In startup companies such as eFishery, the governance structure often lags behind the acceleration of market valuation.

Audit Quality

Audit quality is one of the main pillars of a transparent, accountable, and integrity-driven financial governance system (Basri et al., 2025). Empirically, audit quality can be measured through a number of indicators, including low levels of earnings management, the number of financial statement restatements, the issuance of relevant and appropriate audit opinions, and the presence of Key Audit Matters (Fransceschi et al., 2023). Additionally, McLaughlin et al. (2021) provide strong empirical evidence that audit committees play a strategic role in preventing fraud risks through more effective oversight of financial statements and internal control systems. Further research confirms that the quality of internal controls has the potential to enhance audit quality (Barr-Pulliam et al., 2022; Diya, 2022). In line with these findings, Kim (2023) explains that adequate and effectively implemented internal controls can provide assurance regarding high audit quality. Thus, a high-quality audit process contributes to strengthening internal controls, corporate governance, risk management, and overall corporate performance (Hamzah et al., 2021).

Fraud Risk

The Association of Certified Fraud Examiners (ACFE, 2024) states that the purpose of financial statement fraud is to mislead users of financial statements and influence their decision-making processes. This statement aligns with Chen et al. (2021), who explain that fraud is an intentional act committed to induce a misjudgment of information, with the aim of deceiving others into entering into transactions and secretly enriching oneself through the reduction of asset values. This is also consistent with previous researchers who emphasize that one of the most common forms of fraud is the falsification of financial statements regarding a company’s actual financial condition (Abebaw, 2020; Hakami et al., 2020). Furthermore, when values such as transparency, integrity, and accountability are deeply embedded in an organization’s culture, employees tend to act ethically and are less likely to engage in fraudulent activities (Khusnah & Soewarno, 2022).

Governance Gaps on Fraud Risk

The high number of fraud cases emphasizes the importance of implementing corporate governance as a key step in preventing fraud risks (Apristiana & Utomo, 2025). Therefore, the development of solid and dynamic corporate governance is essential to reduce corruption and fraud, as sound governance policies significantly strengthen an organization's capacity to mitigate such risks (Paganou et al., 2024; Souguir et al., 2024). Lekhawaichit et al. (2022) emphasize in their study that an effective corporate governance structure, particularly regarding the functions of the board of directors supervisors and the audit committee, may lower the likelihood of fraudulent activity. This aligns with the findings of Rostami and Rezaei (2022), who noted that strong governance significantly reduces the risk of financial statement fraud through mechanisms such as board independence and management's financial expertise. However, boards often fail to fulfill their role in conducting effective oversight, leaving organizations vulnerable to misconduct (Abu Khadra & Delen, 2020). Achmad et al., (2022) highlighted the obstacles in detecting fraud, one of which was caused by internal conflict within the board of directors.

H1: Governance gaps have a positive and significant effect on fraud risk

Governance Gaps on Audit Quality

Corporate governance and audit quality have become major topics in accounting and finance literature, driven by the emergence of various financial scandals and global demands to increase openness and responsibility in financial disclosure (Kaawaase et al., 2021). Effective corporate governance practices are considered capable of influencing audit quality, as they promote transparency, honesty, and the reliability of data disclosed in financial reports as well as in company operations (Puwarnenthiren & Sivarajah, 2022). To maximize fraud risk prevention, Tanjaya and Kwarto (2022) emphasize the importance of collaboration among corporate governance components. In line with this view, Devi (2024) identifies five key governance mechanisms that play a role in detecting fraud risk: auditors, the board of directors, internal controls, shareholders, and corporate performance.

H2: Governance Gaps Have a Positive and Significant Effect on Audit Quality

Audit Quality as a mediating variable

Audit quality holds a crucial role as a mechanism that bridges the connection among governance gaps and fraud risk. From a theoretical perspective, Popa (Sabau) et al. (2024) explain that weak governance—particularly regarding board independence and suboptimal audit system quality—serves as a mediator that reinforces the connection among governance weaknesses and increased fraud risk. Research by Martins and Junior (2020) confirms that the integrity of top management is a determining factor in preventing or facilitating fraud within the accounting system. Conversely, quantitative study conducted by Eugster et al. (2024) demonstrates that high-quality audit processes significantly contribute to enhancing oversight functions and reducing violations and unethical behavior at the corporate level. Therefore, the effectiveness of audits in reducing the risk of fraud depends not only on auditors but also on support from various parties, such as the board of commissioners, whistleblowing mechanisms, the government, and the media (Fernando et al., 2017).

H3: Audit Quality mediates the relationship between Governance Gaps and Fraud Risk.

RESEARCH METHODOLOGY

This study employs a quantitative approach grounded in the positivist paradigm, in which social reality is viewed as objective, measurable, and empirically testable. This approach was chosen because the study aims to systematically test causal relationships among variables through structured statistical procedures.

The design used is a cross-sectional survey study, in which data collection is conducted at a specific point in time from a sample of respondents representing the target population. This design is

suitable for testing models of relationships among latent variables that cannot be directly observed but are measured through manifest indicators (observed variables).

Primary data were obtained through a structured questionnaire administered online to respondents using Google Forms. The questionnaire items were developed from indicators representing each latent construct or variable, identified through a review of relevant theories and literature. Responses to each item were assessed using a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree), which allows for the continuous measurement of respondents' perceptions, attitudes, or behaviors.

The population in this study consists of all auditors practicing in Indonesia, including those working at Public Accounting Firms (PAFs) as well as internal auditors employed by government agencies and private companies. This population is infinite, given that the total number of registered auditors actively practicing throughout Indonesia cannot be precisely determined and is dynamic over time.

Given the characteristics of this infinite population, sampling was conducted using purposive sampling, which includes selecting a sample according to specific considerations and criteria relevant to the research objectives. The criteria established in this study include: (1) respondents are active auditors who are currently conducting or have previously conducted audit assignments; and (2) respondents reside or practice in Indonesia. In this study, the margin of error is set at 10% of the total population, resulting in a minimum sample size of 100 individuals.

Using SmartPLS 4, the data analysis was conducted through Partial Least Squares Structural Equation Modeling (PLS-SEM). PLS-SEM was chosen because it does not strictly require the fulfillment of multivariate normality assumptions, is reliable for small to medium sample sizes, and is suitable for predictive research with complex structural models (Hair et al., 2019; Ringle et al., 2015). The evaluation of the measurement model (outer model) and the structural model (inner model) was carried out as two separate stages of analysis.

Convergent validity in the outer model assessment was examined through outer loading values (≥ 0.70), Average Variance Extracted (AVE ≥ 0.50), cross-loadings, and composite reliability, which was verified using Cronbach's Alpha ($\alpha \geq 0.70$). The inner model was analyzed based on the coefficient of determination (R^2), effect magnitude (f^2), and path estimates. To test the hypotheses, a bootstrapping method with 5,000 resamples was applied to generate t-values and p-values for each structural path. Under a significance threshold of $\alpha = 10\%$ with a two-tailed approach, a hypothesis was regarded as accepted when the t-statistic exceeded 1.645 (Hair et al., 2019).

RESULTS AND DISCUSSION

This study employs a conceptual framework that illustrates the relationship among three main constructs: Governance Gaps (GA) as the exogenous variable, Audit Quality (AQ) as the mediating variable, and Fraud Risk (F) as the endogenous variable. Governance Gaps are measured through six reflective indicators (GA1–GA6), Audit Quality is measured through four reflective indicators (AQ1–AQ4), and Fraud Risk is measured through four reflective indicators (F1–F4). This framework is based on the theoretical argument that governance gaps occurring within an organization will impact the resulting audit quality, which in turn affects the auditor's ability to detect fraud (fraud risk). Figure 1 below presents the conceptual framework applied in this study:

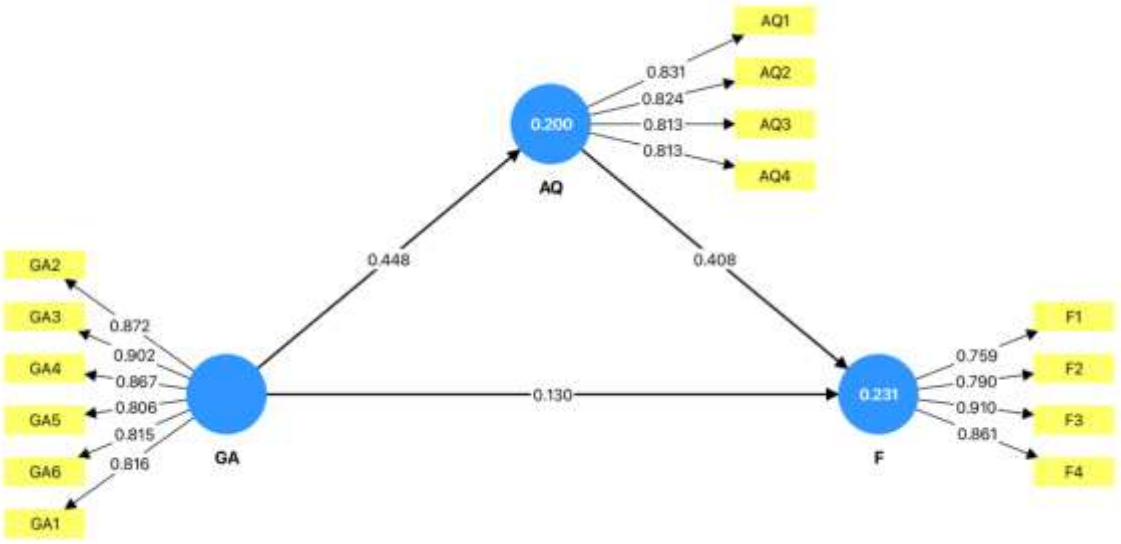

Figure 1. Test Framework and Outer Model Results

This research model proposes three relationship pathways that are empirically tested. First, the direct relationship between Governance Gaps and Audit Quality, which reflects the influence of governance conditions on the quality of audit performance. Second, the connection among Audit Quality and Fraud Risk, which reflects the role of audit quality in enhancing the effectiveness of fraud detection. Third, the direct relationship between Governance Gaps and Fraud Risk, which tests whether governance gaps directly influence the ability to detect fraud without Audit Quality acting as a mediator. With this model structure, the study also allows for testing the role of Audit Quality as a mediating variable in the connection among Governance Gaps and Fraud Risk.

The evaluation of the measurement model (outer model) begins with a test of convergent validity through an assessment of the outer loadings of all indicators within each construct. This is based on the rule of thumb set at 0.70 (Hair et al., 2019). The following are the outcomes of the outer loadings using SmartPLS 4.1.1.7 software, presented in Table 1:

Table 1. Result of Outer Loadings

Variable	Item Code	Load Value	*Rule of Thumb*	Description
Governance Gaps	GA1	0,872	0,7	Valid
	GA2	0,902	0,7	Valid
	GA3	0,867	0,7	Valid
	GA4	0,806	0,7	Valid
	GA5	0,815	0,7	Valid
	GA6	0,816	0,7	Valid
Audit Quality	AQ1	0,831	0,7	Valid
	AQ2	0,824	0,7	Valid
	AQ3	0,813	0,7	Valid
	AQ4	0,813	0,7	Valid
Fraud risk	F1	0,759	0,7	Valid
	F2	0,790	0,7	Valid
	F3	0,910	0,7	Valid
	F4	0,861	0,7	Valid

The results in Table 1 show that all indicators for the three constructs in this study met the required thresholds. The Governance Gaps construct, measured using six indicators (GA1–GA6), received outer loadings ranging from 0.806 to 0.902; the Audit Quality construct, measured through

four indicators (AQ1–AQ4), received values ranging from 0.813 to 0.831; and the Fraud Risk construct, measured through four indicators (F1–F4), received values ranging from 0.759 to 0.910.

Based on these results, all 14 indicators used in this study were deemed valid because each had outer loadings above 0.70, meaning each indicator explained more than 49% of the variance in its latent construct. The highest outer loading value was obtained by indicator F3 in the Fraud Risk construct at 0.910, while the lowest value was obtained by indicator F1 at 0.759, which remained above the required threshold. Thus, no indicators need to be eliminated from the model, and all indicators are appropriate to be applied in the subsequent testing stage.

The convergent validity testing continued with an evaluation of the Average Variance Extracted (AVE) for each construct. AVE measures the average variance explained by a construct based on its indicators, with a minimum required value of 0.50 (Fornell & Larcker, 1981). The outcomes are presented in Table 2 below:

Table 2. AVE Results

	AVE
Governance Gaps	0,673
Audit Quality	0,693
Fraud risk	0,717

The test outcomes presented in Table 2 show that the Governance Gaps construct obtained an AVE value of 0.673, the Audit Quality construct 0.693, and the Fraud Risk construct 0.717.

All AVE values for these three constructs are above the required threshold of 0.50, meaning more than half of the variance in the corresponding indicators can be explained by each construct. The highest AVE value was obtained by the Fraud Risk construct at 0.717, followed by Audit Quality at 0.693, and Governance Gaps at 0.673. Thus, all variables examined in this research have satisfied the required standards for convergent validity and are deemed valid for use in the subsequent testing phase.

Discriminant validity testing was conducted via cross-loading analysis to ensure that every indicator demonstrates a stronger association with its respective construct than with other constructs included in the model. The following are the cross-loading outcomes obtained using SmartPLS 4.1.1.7 software, as shown in Table 3:

Table 3. Cross-Loading Results

	GA	AQ	F
GA1	0.816	0.366	0.206
GA2	0.872	0.344	0.239
GA3	0.902	0.399	0.309
GA4	0.867	0.470	0.249
GA5	0.806	0.236	0.188
GA6	0.815	0.396	0.354
AQ1	0.332	0.831	0.306
AQ2	0.336	0.824	0.393
AQ3	0.407	0.813	0.462
AQ4	0.381	0.813	0.343
F1	0.215	0.322	0.759
F2	0.167	0.265	0.790
F3	0.327	0.434	0.910
F4	0.290	0.473	0.861

The test results presented in Table 3 show that all indicators of the Governance Gaps construct (GA1–GA6) have factor loadings on their own construct ranging from 0.806 to 0.902, which are higher than the cross-loadings on the Audit Quality construct (0.236–0.470) and the Fraud Risk construct

(0.188–0.354). Similarly, all indicators of the Audit Quality construct (AQ1–AQ4) have factor loadings on their own construct ranging from 0.813 to 0.831, which are higher than the cross-loadings on the Governance Gaps construct (0.332–0.407) or the Fraud Risk construct (0.306–0.462).

Furthermore, all indicators of the Fraud Risk construct (F1–F4) have loadings on their own construct ranging from 0.759 to 0.910, which are higher than the cross-loadings on the Governance Gaps construct (0.167–0.327) or the Audit Quality construct (0.265–0.473). These results indicate that each indicator consistently loads more strongly on its intended construct than on other constructs; thus, all indicators in this research model meet the criteria for discriminant validity, and it can be concluded that the three constructs—Governance Gaps, Audit Quality, and Fraud Risk—are distinct constructs that can be empirically distinguished.

The reliability of internal consistency was evaluated through the calculation of Cronbach's Alpha for every construct. The rule of thumb used was a cutoff of 0.70 (Hair et al., 2019). The outcomes of Cronbach's Alpha are presented in Table 4:

Table 4. Cronbach's Alpha Results

	Cronbach's Alpha	Rule of Thumbs	Keterangan
Governance Gaps	0.921	0.7	Reliabel
Audit Quality	0.839	0.7	Reliabel
Fraud risk	0.856	0.7	Reliabel

The test outcomes presented in Table 4 reveal that the Governance Gaps construct obtained a Cronbach's Alpha value of 0.921, the Audit Quality construct 0.839, and the Fraud Risk construct 0.856.

All Cronbach's Alpha values for these three constructs are above the required threshold of 0.70 and fall within an acceptable range; therefore, all constructs are deemed reliable. The highest Cronbach's Alpha value was obtained by the Governance Gaps construct at 0.921, followed by Fraud Risk at 0.856, and Audit Quality at 0.839. Thus, every measurement tool applied in this research demonstrates strong internal consistency and is appropriate for use in the next stage of testing.

The proportion of variance in endogenous constructs explained by exogenous constructs within the model was first examined through the coefficient of determination (R^2) as part of the structural model assessment. Based on the guidelines proposed by Hair et al. (2019), R^2 values of 0.75, 0.50, and 0.25 indicate substantial, moderate, and weak explanatory power, respectively. The corresponding R^2 results are presented in Table 5 below:

Table 5. R-Square Results

	R Square
AQ	0.200
F	0.231

The test outcomes presented in Table 5 show that the Audit Quality (AQ) construct has an R^2 value of 0.200, meaning that 20.0% of the variance in Audit Quality is described by the Governance Gaps construct, while the remaining 80.0% is explained by other variables outside this study model.

The Fraud Risk (F) construct obtained an R^2 value of 0.231, meaning that 23.1% of the variance in Fraud Risk can be jointly explained by the Governance Gaps and Audit Quality constructs, while the remaining 76.9% is explained by other variables outside the model. Both R^2 values are below the 0.25 threshold and are therefore categorized as weak (Hair et al., 2019). Nevertheless, these results remain acceptable given that this study is exploratory in the context of auditing in Indonesia, where the complexity of the fraud risk phenomenon is influenced by many factors not fully captured in this research model.

The evaluation of the structural model continued with an assessment of the effect size (f^2) to assess the comparative influence of each predictor construct on the endogenous construct within the model. Following Cohen's (1988) conventions, an f^2 value of 0.02 is categorized as a small effect, f^2 = 0.15 as a moderate effect, and f^2 = 0.35 as a large effect. The results of f^2 are shown in Table 6 as follows:

Table 6. F-Square Results

	GA	AQ	F
GA		0,251	0,018
AQ			0,173
F			

The test results in Table 6 show that Governance Gaps have an f^2 value of 0.251 for Audit Quality, which is categorized as a large effect, indicating that Governance Gaps make a substantial contribution to explaining the variance in the Audit Quality construct. Meanwhile, Audit Quality has an f^2 value of 0.173 regarding Fraud Risk, which is categorized as a moderate effect, indicating that Audit Quality makes a moderate contribution to explaining the variance in the Fraud Risk construct.

Meanwhile, Governance Gaps have an f^2 value of 0.018 regarding Fraud Risk, categorized as a small effect, indicating that the direct influence of Governance Gaps on Fraud Risk contributes relatively little to the variance of that construct. These results indicate that the relationship between Governance Gaps and Fraud risk likely operates primarily through an indirect pathway via Audit Quality as a mediating variable, rather than through a direct effect. Generally, the f^2 test outcomes show that Governance Gaps is the most dominant predictor in the model, particularly in explaining changes in the Audit Quality construct.

To generate t-statistics for every path coefficient within the structural model, hypothesis evaluation employed a bootstrapping approach based on 5,000 resampled subsamples. With a significance level of α = 10% and a two-tailed test, a hypothesis is accepted if the t-statistic value exceeds the critical t-value of 1.645. Table 7 below displays the outcomes obtained from the hypothesis testing process:

Table 7. Hypothesis Testing

Hypothesis	Effect	Path Coefficient	t Statistics	P values	Decription
H1	GA->F	0.130	1.105	0,269	H1 Ditolak
H2	GA->AQ	0.448	5.077	0,000	H2 Diterima
H3	AQ->F	0.408	4.096	0,000	H3 Diterima

The test results presented in Table 7 show that the outcomes of the first hypothesis test (H1) indicate that governance gaps do not have a significant direct effect on fraud risk, with a path coefficient of 0.130 and a t -statistic of 1.105, which does not exceed the critical t-value of 1.645, and a P-value of 0.669 (>0.05), leading to the rejection of H1. This finding indicates that governance gaps within an organization are not statistically proven to directly influence fraud detection capabilities. These results align with the findings of Herawaty and Hernando (2020), who, in their study of the Jambi City Local Government, found that Good Corporate Governance does not have a significant effect on fraud prevention, and indicated that governance conditions alone are insufficient to directly suppress or detect fraud without being supported by more operational control mechanisms.

The rejection of H1 in this study can be explained by the perspective that governance gaps are structural conditions that are macro-level and latent in nature, meaning that their impact on fraud detection is neither linear nor direct. Apristiana and Utomo (2025), in their systematic review, emphasize that the effectiveness of governance mechanisms in preventing and detecting fraud is highly dependent on the cultural, regulatory, and institutional context in which such governance is implemented. In the context of auditors in Indonesia, governance gaps present in the client environment are not immediately addressed through fraud detection but first influence how auditors design and execute their audit procedures. This is reinforced by Sinaga et al. (2026), who state that fraud detection efforts cannot rely solely on governance structures but require synergy between strong governance, an organizational ethical climate, and an adaptive detection system.

The outcomes of the second hypothesis test (H2) reveal that Governance Gaps have a positive and significant effect on Audit Quality, with a path coefficient of 0.448, a t-statistic of 5.077—which far exceeds the critical t-value of 1.645—and a p-value of 0.000 (<0.05); thus, H2 is accepted. This finding indicates that the larger the governance gaps within an audited entity, the higher the demand

for higher-quality audit execution. This can be understood because high levels of Governance Gaps reflect greater risk complexity, thereby prompting auditors to apply stricter, more in-depth, and comprehensive audit procedures. This result is consistent with the outcomes of Mustapha et al. (2023), who found that corporate governance mechanisms have a significant relationship with audit quality, wherein weak governance conditions drive an increase in the quality of oversight through more intensive audits as a compensatory mechanism for existing weaknesses in internal controls.

Finding H2 can also be explained from the viewpoint of agency theory, in which governance gaps create greater information asymmetry among principals and agents, thereby requiring stronger external oversight mechanisms in the form of high-quality audits. Li (2025), in his study of companies listed in China, found that corporate governance indicators play a fundamental part in increasing the accuracy of financial fraud detection, and the inclusion of governance indicators significantly improves the performance of the detection models employed. This reinforces the argument that governance conditions, including existing gaps, are contextual variables that directly shape the standards and quality of audit processes applied by auditors in response to existing fraud risks.

The outcomes of the third hypothesis test (H3) reveal that audit quality has a positive and significant effect on fraud risk, with a path coefficient of 0.408, a t-statistic of 4.096 that exceeds the critical t-value of 1.645, and a p-value of 0.000 (<0.05); therefore, H3 is accepted. This finding indicates that the higher the quality of the audit conducted, the more effective the auditor's ability to detect fraud. High audit quality reflects the application of stronger professional skepticism, more comprehensive audit procedures, as well as better auditor competence and independence, which collectively increase the probability of identifying fraud indicators during the audit process. These findings align with those of Hakami et al. (2020), who, in their study of companies in the Gulf Cooperation Council region, found that auditor quality and competence significantly influence the ability to detect financial statement fraud, with auditors operating under higher quality standards demonstrating a higher success rate in identifying indications of fraud.

Overall, the outcomes of testing the three hypotheses in this study provide empirical evidence supporting the role of Audit Quality as a mediating variable linking Governance Gaps to Fraud Risk. While the direct effect of Governance Gaps on Fraud Risk was not found to be significant, its indirect effect was found to operate through Audit Quality as an intermediary mechanism. This is consistent with the findings of Abu Khadra (2020), who found that independent audits and the use of independent accountants are the most dominant factors influencing fraud reporting in nonprofit organizations, indicating that a high-quality audit mechanism serves as a critical bridge between an entity's governance conditions and the efficiency of fraud detection within it.

The implications of these research findings are highly relevant to auditing practices in Indonesia. First, auditors need to increase their sensitivity to governance gaps in the entities they audit—not as direct indicators of fraud, but as triggers to improve the quality of their audit procedures. Second, regulators and professional auditing bodies such as the Indonesian Institute of Public Accountants (IAPI) need to strengthen audit quality standards focused on fraud detection, given that audit quality has proven to be the primary mechanism linking governance conditions to the effectiveness of fraud detection. Third, organizations and companies need to recognize that strengthening governance without accompanying improvements in audit quality will not directly enhance fraud detection capabilities; therefore, investment in audit quality must be prioritized as an integral part of a comprehensive fraud prevention and detection strategy (Apristiana & Utomo, 2025; Sinaga et al., 2026).

CONCLUSION

This study examines the structural relationship between Governance Gaps (GA), Audit Quality (AQ), and Fraud risk (F) using the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach. Based on the evaluation of the measurement model, all 14 indicators in the three constructs showed adequate outer loadings, AVE values above the threshold, and Cronbach's Alpha values that exceeded the threshold, so that all measurement instruments were declared valid and reliable. The

structural model testing produced three main findings: Governance Gaps do not have a significant direct effect on Fraud risk; Governance Gaps have a positive and significant effect on Audit Quality, indicating that governance gaps encourage auditors to implement stricter procedures in response to increased risk; and Audit Quality has a positive and significant effect on Fraud risk, confirming that the higher the audit quality, the more effective the auditor's ability to detect fraud through professional skepticism, more thorough procedures, and better competence and independence.

Overall, the outcomes of this study offer empirical evidence supporting the role of Audit Quality as a critical mediating variable in the connection among Governance Gaps and Fraud risk. The relatively small effect size of the direct path from Governance Gaps to Fraud risk compared to the moderate effect of Audit Quality on Fraud risk and the large effect of Governance Gaps on Audit Quality further strengthens the belief that the influence of governance conditions on fraud detection operates more through audit quality as an intermediary than through its direct path. Although the R^2 values for both endogenous constructs are still below the threshold, these results are still acceptable considering the investigative characteristic of this study and the multidimensional complication of the fraud risk phenomenon in the context of auditing in Indonesia.

According to the study outcomes, several recommendations are presented to stakeholders. For auditor practitioners, it is necessary to increase sensitivity to Governance Gaps as a trigger for strengthening professional skepticism, expand the scope of substantive testing, and design more adaptive and risk-responsive audit programs, in line with empirical evidence that audit quality is the main mechanism linking governance conditions to the effectiveness of fraud detection. For regulators and professional organizations, policy interventions need to prioritize strengthening audit quality standards oriented towards fraud detection, improving auditor competency frameworks, protecting independence, and providing continuing professional education modules focused on fraud awareness and detection techniques. For organizations and companies, structural governance reforms must be accompanied by investments in high-quality external and internal audit mechanisms as an integral part of a comprehensive anti-fraud strategy, as strengthening governance without a robust audit quality assurance system is insufficient to directly improve the effectiveness of fraud detection (Apristiana & Utomo, 2025; Sinaga et al., 2026). For future researchers, the relatively low R^2 values for Audit Quality and Fraud risk suggest the need to include additional variables such as auditor independence, organizational ethical climate, internal control quality, adoption of digital audit technology, and intensity of regulatory enforcement, along with a larger and geographically diverse sample size to strengthen the generalizability of the outcomes and develop a more broad theoretical model of fraud detection in the Indonesian auditing context.

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