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The Analysis of Fraudulent Financial Reports Through Fraud Hexagon on Public Mining Companies

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ABSTRACT

This research with a purpose to verify the effect of financial targets, financial stability, external pressure, supervision effectiveness, external auditor quality, change of auditors, CEO education, CEO duality, state-owned enterprises, political connections on the fraudulent financial report through hexagon fraud theory. Mining sector companies that registered on the Indonesia Stock Exchange in the period of 2017-2019 are the population in this research. The purposive sampling technique is used to select the research sample so as obtain samples of 41 companies and 123 analysis units. Panel regression analysis is an analytical technique that used in this research. The result shows that financial targets and external pressures have positive and significant effects on fraudulent financial reports. Meanwhile, financial stability, supervision effectiveness, external auditor quality, change of auditors, CEO education, CEO duality, state-owned enterprises, and political connections do not affect the fraudulent financial report. This research deduces that the higher financial targets and external pressures in a company make the possibility of management as an agent to commit fraudulent financial reports in order to attract investors will be more vulnerable.

INTRODUCTION

Companies in maintaining their existence often try to maintain the popularity and continuity of the company. Companies often try to show good performance acceptance so as not to cause users of financial statements to think they have been disappointed. This condition makes agents do various ways so that financial statements can always be shown looking good so that they can compete in the market space and have a large network. However, not all efforts often get maximum results. Therefore, the companies face this problem by committing fraud. The type of fraud that always arises is manipulating certain items available in financial statement data, which causes financial reporting not to inform the real situation. Without realizing it, fraud even harms the companies because the good name and existence that have been built so far will threaten the company's going concern.

According to a survey conducted by personnel (ACFE) Indonesia Chapter, 2019) showing that mining companies are companies that are classified as fraud often occurs, which is 5% and in the third place the types of companies that are harmed by fraud. Meanwhile, for mining sector companies, the number of losses caused by fraud has increased based on the 2018 and 2020 ACFE (Association of Certified Fraud Examiners) surveys. In the survey of ACFE, (2018) there were 27 cases of fraud causing a loss of $208,000, while the survey ACFE, (2020) there were 26 cases of fraud resulting in a loss of $475,000. One of the fraudulent financial report scandals that occurred in the multinational mining industry in the 2017 period was the Rio Tinto company. The multinational mining company involved a former CEO and CFO who was accused of fraud by the United States authorities for allegedly trying to hide their losses when investing in coal capital in Africa for US $ 3.7 billion.

The fraud hexagon theory is the latest fraud theory, which is a development of the fraud theory initiated by Vousinas (2017) as a refinement of the fraud theory of (Crowe, 2011). Vousinas added a collusion component that can influence fraud. Thus, there are six components in the fraud hexagon theory, namely, pressure, ability, collusion, opportunity, rationalization, and ego.

The proxy used in this study is to examine every element of the fraud hexagon, such as pressure proxied through financial targets, financial stability, and external pressure. Research related to the effect of financial

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targets on fraudulent financial reports still shows contradictory results seen from the research conducted by Apriliana & Agustina (2017), Yulianti et al. (2019), Setiawati & Baningrum (2018), and Antawirya et al. (2019). The inconsistent effect of financial stability on fraudulent financial reports can be seen from research conducted by Aprilia (2017), Prasmaulida (2016), Tessa & Harto (2016), and Setiawati & Baningrum (2018). Inconsistency is also found in the relationship of external pressure to fraudulent financial reports seen from the research conducted by Kurnia & Anis (2017), Vivianita & Indudewi (2018), Tessa & Harto (2016), and Septriani & Handayani (2018). Opportunity is proxied by the effectiveness of supervision and the quality of external auditors. Research related to the effect of supervision effectiveness on fraudulent financial reports still shows contradictory results seen from the research conducted by Umar et al. (2020), Dewi & Anisykurlillah (2021), Smaili & Labelle (2016) as well as Kusumawardhani (2013). The inconsistency in the relationship between fraudulent financial reports and the quality of external auditors can be seen from the research conducted by Ratnasari & Solikhah (2019), Dewi & Anisykurlillah (2021), Apriliana & Agustina (2017), and Darmawan & Saragih (2017). Rationalization is proxied by auditor changes. Research related to auditor changes on fraudulent financial reports shows inconsistencies results can be seen from the research conducted by Taufiq Akbar (2017), Yulianti et al. (2019), Premananda et al. (2019), and Ulfah et al. (2017). Ability is proxied by CEO education. The inconsistent relationship between CEO education and fraudulent financial reports can be seen from the research conducted by Firdaus & Suryandari (2008), Lestari & Henny (2019), Ying & Mei (2014), and Jannah (2017). Ego is proxied with CEO duality. Research related to CEO duality on fraudulent financial reports shows inconsistent results seen from the research conducted by Chuzaini & Cahyaningsih (2019), Indriyani & Suryandari (2021), Yang et al. (2017), and Anuar et al. (2012). Collusion is measured using state-owned enterprises, as well as political connections. Research related to state-owned enterprises on fraudulent financial reports shows inconsistent results as seen from the research conducted by Chen et al. (2018), Chantia et al. (2021), Gaio & Pinto (2018), and Desviana et al. (2020). Inconsistency is also found in the relationship between political connections and fraudulent financial reports, seen from the research conducted by Ngan (2013), Harymawan & Nurillah, (2017), Matangkin et al. (2018) as well as Kurnia & Anis (2017).

The objective of this study is to examine heuristically the components in the fraud hexagon theory on fraudulent financial reports in the mining sector companies listed on the Indonesia Stock Exchange in a row in 2017-2019. The difference between this study and previous research is that the rationalization component is proxied by auditor changes, using a nominal scale for measuring auditor changes. Meanwhile, in previous research, rationalization was only measured by the total value of accruals.

Jensen & Meckling (1976) stated that there is a relationship between agents and principals. The principal gives authority and responsibility to management as the agent to manage the company, including the responsibility for issuing financial statements on its performance. However, the relationship between the principal and the agent creates a difference of interest. The agent wants a high level of profit for its performance while the principal wants a high level of stock return. The agent has more information about the company than the principal resulting in an information imbalance called information asymmetry. Information asymmetry that gives the agent a gap to cover up various data that is not known to the principal will then stimulate the management to commit fraudulent practices.

Financial targets are financial measures in the form of business returns that have been set by agents (Apriliana & Agustina, 2017). The existence of a bond between financial targets and agency theory which explains the relationship between management as agents and shareholders as principals proposed by (Jensen & Meckling, 1976). Companies seek to obtain high-profit targets to obtain large amounts of funds from investors. Thus, with high financial targets, it creates pressure for management and drives management to commit fraud by manipulating financial statements that are shown inappropriately and disharmonious with the actual company situation. Thus, it can be interpreted that the higher the financial targets obtained by the company, the greater the probability that there will be fraudulent financial statements. Studies conducted by Setiawati & Baningrum (2018), and Antawirya et al. (2019) support fraudulent financial reports can be influenced by financial targets in a positive direction.

H_1: Financial targets have a positive effect on fraudulent financial reports

Financial stability is a condition where the company's finances are stable and the company is always trying to increase its finances or at least in a stable condition Agusputri & Sofie (2019). Financial stability shows a relationship with agency theory. Management as the agent always tries to maintain financial stability in the company, because of the push to attract and hold investors. If financial stability is threatened, it will drive management to manipulate data in order to continue to show a stable financial condition, with the aim of maintaining investor trust. Thus, the greater the value of financial stability, the greater the probability of fraudulent financial reporting practices in the company. Studies conducted by Apriliana & Agustina (2017) and Ratnasari & Solikhah (2019) support fraudulent financial reports can be influenced by financial stability in a positive direction.

H_2 : Financial stability has a positive effect on fraudulent financial reports

External pressure is excessive pressure for management to meet the requirements or expectations of third parties (Setiawati & Baningrum, 2018). External pressure has a relationship with agency theory. Management pressure to get capital injections stimulates management to do various ways, including committing fraudulent financial reports in order to show the best performance with the aim of meeting the expectations of external parties. Leverage ratio can be a proxy for the external pressure variable where the leverage ratio is the ratio between total liabilities to total assets. If the company has a high leverage ratio, it means that the company has a lot of loans resulting in the credit risk owned by the company being large as well. So that the creditors experience worries in providing loans to the companies. So the greater the leverage ratio, the higher the possibility of fraudulent financial statements. Studies conducted by Yulianti et al. (2019), and Septriyani & Handayani (2018) support that fraudulent financial reports can be influenced by external pressure in a positive direction.

H_3 : External pressure has a positive effect on fraudulent financial reports

Supervision effectiveness is a supervisory activity that includes checking whether the established plans have been running properly and measuring the success of a performance by looking at the level of supervision of a company in achieving its goals (Kurniawati & Nurmala, 2020). In agency theory, management has more information about companies than principals so effective supervision is needed to minimize the occurrence of fraudulent practices. The comparison of the independent board of commissioners and the board of commissioners can be a proxy for the variable of supervision effectiveness, where the greater the comparison value of the independent board of commissioners with the board of commissioners, the smaller the probability of fraudulent financial reports. Studies conducted by Smaili & Labelle (2016) and Kusumawardhani (2013) support fraudulent financial reports can be influenced by the effectiveness of supervision in a negative direction.

H_4 : The effectiveness of supervision has a negative effect on fraudulent financial reports

The audit quality audited by the big four KAPs is good because the auditors who are incorporated have a lot of resources, education, expertise, competence, and independence that are better than the non-big four KAPs (Vivianita & Indudewi, 2018). The quality of external auditors has a relationship with agency theory. External auditors are parties who, are considered capable of being a bridge between agents and principals. Thus, a good and competent level of quality possessed by external auditors will reduce the opportunity for fraud by agents. So, if the company uses audit services from KAP BIG 4 in examining its financial statements, the probability of detecting fraudulent financial statements will be higher. Studies of Apriliana & Agustina (2017) and Darmawan & Saragih (2017) support fraudulent financial reports can be influenced by the quality of external auditors in a negative direction.

H_5 : External Auditor Quality has a negative effect on fraudulent financial reports

Companies that frequently change auditors are more possible to commit fraud. Auditor change has a relationship with agency theory. The change of auditors will be benefited by the agent committing fraud since with this situation, management can eliminate important data that is unknown from the principal. If the company does not change the previous auditor, it is likely that the auditor already knows the risks and systems in the company, causing the company to have difficulty in committing fraudulent practices. Changes in auditors within a company can also be indicated to destroy audit trails that are detected by previous auditors (Harto, 2016). Thus, companies that frequently change auditors can be said to be most likely to commit fraudulent financial statements. Studies of Premananda et al. (2019) and Ulfah et al. (2017) support fraudulent financial statements can be influenced by auditor change in a positive direction.

H_6 : Auditor change has a positive effect on fraudulent financial reports.

Education is a process to instill an experience or ability that makes a person qualified. There is a relationship between CEO education and agency theory. High CEO education will make the CEO's competence better as an agent in managing the company than the principal. This drives the agent to hide some information that is unknown to the principal. In this asymmetry, agents can influence the information in the financial statements presented so that there are indications of fraud. Thus, increasing the education level of CEOs with better capabilities and insights will increase the effectiveness of committing fraud. Studies conducted by Jannah (2017), and Ying & Mei (2014) support fraudulent financial reports can be influenced by CEO education in a positive direction.

H_7 : CEO education has a positive effect on fraudulent financial reports

CEO's duality is a CEO who holds more than one position in a company. CEO duality has a relationship with agency theory, that the CEO holds more than one position, the CEO takes advantage of his position by committing fraud due to the low supervisory function in the company for his own benefit. Thus, when a company has a CEO duality, there is a possibility of fraudulent actions due to the lack of a proper supervisory function that is separate from personal interests. Studies of Yang et al. (2017) and Anuar et al. (2012) support fraudulent financial reports can be influenced by CEO Duality in a positive direction.

H_8 : CEO duality has a positive effect on fraudulent financial reports

State-Owned Enterprises are a company whose shares are mostly owned by the state. State-Owned Enterprises have a relationship with agency theory. The government places someone to occupy a position in the company; this is seen as a representative of the government. Thus, this position results in poor quality supervision in the company due to a special relationship with the government that can hide fraudulent practices. According to Estrin et al., (2009), state-owned companies are seen as low in efficiency. This is due to the company's directors who are often appointed based on special relationships not based on capabilities and achievements. Thus, State-Owned Enterprises are inefficient due to social and political purposes and get privileges to cover up bad corporate conditions. Studies conducted by Gaio & Pinto (2018) and Desviana et al. (2020) support that fraudulent financial reports can be influenced by State-Owned Enterprises in a positive direction.

H_9 : State-owned enterprises have a positive effect on fraudulent financial reports.

A politically integrated company is a company that with certain efforts has political relations or seeks closeness with politicians or the government (Pranoto & Widagdo, 2016). There is a relationship between political connections and agency theory, with differences in interests between agents and principals. Management wants the welfare of individuals to benefit, for getting help from politicians, it is used by management to commit fraud. Political connections make it easier for companies to get lots of loan funds. However, the more loans received, the more difficult it is for companies to pay

Table 1. Operational Definition of Variables

Variables	Operational Definition	Measurement
Fraudulent Financial Report (Y)	Intentional mistakes made by management by manipulating financial statements in order to mislead its users (Kurnia & Anis, 2017).	F-Score = Accrual Quality + Financial Performance (Skousen et al., 2009)
Financial Target (X_1)	Financial targets in the form of business returns that have been set by management (Aprilian & Agustina, 2017).	$ROA = \frac{Net\ Profit}{Total\ Asset}$ (Skousen et al., 2009)
Financial Stability (X_2)	Situations that describe financial stability in the company (Agustina & Sofie, 2019).	$ACHANGE = \frac{Total\ asset\ t - Total\ asset\ t-1}{Total\ asset\ t-1}$ (Skousen et al., 2009)
External pressure (X_3)	Pressure for management to meet the expectations or requirements of third parties (Setiawati & Baningrum, 2018).	$LEV = \frac{Total\ Debt}{Total\ Asset}$ (Skousen et al., 2009)
Monitoring Effectiveness (X_4)	Effective supervision is often carried out by including several independent boards of commissioners within the company (Aprilia, 2017).	$BDOUT = \frac{Number\ of\ independent\ commissioner's}{Total\ board\ of\ commissioner}$ (Kurnia & Anis, 2017)
Auditor Quality (X_5)	the ability to improve the quality of financial reports for companies (Apriliana & Agustina, 2017).	Point 1 for companies that use KAP classified as BIG four, and otherwise are coded 0. (Dewi & Anisyukurlillah, 2021)
Auditor Change (X_6)	The auditor change is done with the aim that fraudulent practices cannot be detected (Ratnasari & Solikhah, 2019.	Point 1 when changing KAP during the 2017-2019 period, and otherwise is coded 0. (Apriliana & Agustina, 2017)
CEO Education (X_7)	There is a correlation between CEO educational background and fraud (ACFE, 2020).	Point 1 if the CEO has a master's educational background or above, and point 0 if he has an educational background below master. (Lestari & Henny, 2019)
CEO *Duality* (X_8)	CEO who has many positions within the company Dewi (Anisyukurlillah, 2021).	Point 1 if the CEO has more than one position within the company, and otherwise is given points 0. (Yang et al., 2017)
State-Owned Enterprises (X_9)	Companies that its capital is mostly owned and controlled by the government (Bruton et al., 2015).	point 1 if the company is a government-owned company, and point 0 if the company is not owned by the government. (Gaio & Pinto, 2018)
Political Connection (X_{10})	Companies that have close ties to politicians or the government (Pranoto & Widagdo, 2016).	Point 1 if in the company there is a president commissioner and/or independent commissioner who has political relations, and otherwise is given point 0. (Matangkin et al., 2018)

Source: Processed data, 2021

Table 2. Descriptive Statistics Test Results

Variables n= 123	Descriptive Statistics				
	Mean	Minimum	Maximum	Std. Deviation	Percent
Dependent Variable					
Fraudulent Financial Report	-0.145	-3.71	2.820	0.944	-
Independent Variable					
Financial Target	0.028	-2.836	1.562	0.355	-
Financial Stability	0.075	-0.741	1.151	0.237	-
External Pressure	0.052	0.026	1.203	0.253	-
Supervision Effectiveness	0.417	0.100	0.950	0.176	-
External Auditor Quality	0.487	0	1	0.501	48.78
Auditor Changes	0.308	0	1	0.463	30.90
CEO Education	0.447	0	1	0.499	44.72
CEO of Duality	0.195	0	1	0.397	19.52
State-Owned Enterprises	0.105	0	1	0.308	10.57
Political Connection	0.487	0	1	0.501	48.78

Source: Processed data, 2021

their debts and can lead to financial distress. Financial distress can have a bad effect on the companies, creating pressure so that it pushes companies to commit fraud. Studies conducted by Matangkin et al. (2018) and Kurnia & Anis (2017) support fraudulent financial reports can be influenced by political connections in a positive direction.

H_{10} : Political connections have a positive effect on fraudulent financial reports

RESEARCH METHODS

This study was a quantitative study to analyze empirically the components in the fraud hexagon theory on fraudulent financial reports, with secondary data sourced from corporate annual reports published through the company's website and the IDX website. (www.idx.co.id). The population in this study were mining companies listed on the Indonesia Stock Exchange (IDX) for the period 2017 to 2019. The sampling technique was carried out by purposive sampling, with the criteria (1) mining companies listed on the IDX consecutively during 2017-2019; (2) companies that presented complete financial statements during the observation period. Thus, it is obtained a sample of 41 companies and 123 analysis units.

One dependent variable and ten independent variables in this study, each of which has its own proxy. The following is the operational definition of each variable can be seen in table 1.

The documentation method was a data collection technique in this study. Descriptive statistical analysis and inferential statistical analysis using panel data regression models were analytical tools used in this study with the help of the EViews 11 computer program with a significance value of 5%.

RESULTS AND DISCUSSION

The results of descriptive statistical analysis of fraudulent financial reports, financial targets, financial stability, external pressure, auditor quality, auditor changes, CEO education, CEO duality, state-owned enterprises, and political connections are greater than the point mean meaning that these variables have heterogeneous data distribution. Meanwhile, the variable of supervision effectiveness pressure has a standard deviation point that is smaller than the mean point, meaning that the variable has a homogeneous data distribution, which can be seen in table 2.

The multicollinearity test and heteroscedasticity test in this study were used to test the classical assumption. Due to the results of panel data regression testing, the CEM model common effect was chosen. The multicollinearity test obtains the correlation level of one variable with other independent variables below 0.8. Thus, the data in this study are free from the multicollinearity problem. Heteroscedasticity test based on the glejser test, all independent variables have a probability greater than 0.05. Thus, the data in this study are free from heteroscedasticity. The adjusted R2 value of the panel data regression model in the study was 0.063. Hence, the independent variable can explain the fraudulent financial report by 6.3%. The result of hypothesis testing can be seen in table 3.

The Effect of Financial Targets on Fraudulent Financial Reports

Fraudulent financial reports are positively affected by financial targets. High financial targets create pressure for management and drive management to commit fraud by manipulating financial statements that are presented as unreasonable and inappropriate with the actual condition of the company. Return on Asset (ROA) in this study is used to measure financial targets. Management is increasingly vulnerable to the possibility of manipulating financial statements with the high financial targets set by the company. The high ROA that is set creates pressure for the agent, so it pushes them to make every effort so that the company can remain competitive (Aguspputri & Sofie, 2019). Research conducted by Setiawati & Baningrum (2018), as well as Antawirya et al. (2019), are in line with the finding of this study.

Table 3. Hypothesis test results

	Hypothesis	Coefficient	p-value (α=5%)	Explanation
H_1	Financial targets have a positive effect on fraudulent financial reports.	0.619	0.020	Accepted
H_2	Financial stability has a positive effect on fraudulent financial reports.	-0.511	0.176	Rejected
H_3	External pressure has a positive effect on fraudulent financial reports.	0.766	0.023	Accepted
H_4	The effectiveness of supervision has a negative effect on the detection of fraudulent financial reports.	0.382	0.464	Rejected
H_5	The quality of the External Auditor has a negative effect on the detection of fraudulent financial reports.	-0.248	0.158	Rejected
H_6	Auditor changes have a positive effect on the detection of fraudulent financial reports.	0.112	0.558	Rejected
H_7	CEO education has a positive effect on fraudulent financial report detection.	-0.049	0.777	Rejected
H_8	CEO duality has a positive effect on the detection of fraudulent financial reports.	-0.230	0.288	Rejected
H_9	State-owned enterprises have a positive effect on the detection of fraudulent financial reports.	0.045	0.873	Rejected
H_{10}	Political connevtion has a positive effevt on the detection of fraudulent financial reports.	0.299	0.101	Rejected

Source: Data processed, 2021

The Effect of Financial Stability on Fraudulent Financial Reports

There is no relationship between financial stability and fraudulent financial reports. This happens because when financial conditions are unstable, companies in this sample are possible not to practice fraud since this will worsen the existing financial condition. Therefore, the companies will improve their performance so that the financial condition returns to a stable condition, with a stable financial condition the companies do not experience financial constraints that result in the companies not committing fraud. This can be seen from the low value of financial stability (ACHANGE) at Cakra Mineral Tbk in 2018, which has a low fraudulent financial report value as well. This finding is supported by the research of Harto, (2016), as well as Setiawati & Baningrum, (2018).

The Effect of External Pressure on Fraudulent Financial Reports

Fraudulent financial reports positively affected by external pressure. The pressures faced by management are one of them the need to obtain capital injections from external parties to maintain the company's existence, so management does everything possible but sometimes their efforts do not produce good results, thus pushing them to manipulate financial statements to attract investors. External pressures in the form of high credit risk result in large amounts of loans or debts, thus pushing the management to manipulate financial statements in order to convince creditors (Septriyani & Handayani, 2018). The finding is supported by the study results of Harto, (2016) and Septriyani & Handayani, (2018).

The Effect of Supervision Effectiveness on Fraudulent Financial Report

There is no negative effect of the supervision effectiveness on fraudulent financial reports. The possibility occurs because the amount of supervision carried out by the independent board of commissioners is not a significant aspect if there is interference from the agent, which causes the supervision to be not objective and low. It can be seen that the high BDOUT value of PT Mitrabara Adiperdana Tbk in 2018 has a high fraudulent financial report value as well. This finding is supported by the research of Umar et al. (2020) as well as Kurnia & Anis, (2017).

The Effect of External Auditor Quality on Fraudulent Financial Report

There is no relationship between auditor quality and fraudulent financial reports. It is due to basically the duties and responsibilities of external auditors belonging to the big four and non-big four are the same when carrying out an audit of financial statements. Not only that, the auditors when carrying out the audit process must comply with audit standards, namely the Professional Standards of Public Accountants (SPAP) and comply with the code of ethics of the public accounting profession issued by the Indonesian Institute of Certified Public Accountants (IAPI), (Ratnasari & Solikhah, 2019). The result of this study is in line with the research conducted by Setiawati & Baningrum, (2018) as well as Ratnasari & Solikhah, (2019).

The Effect of Auditor Change on Fraudulent Financial Report

The change of auditors has no relationship with the fraudulent financial report. Apriliana & Agustina, (2017) stated that an auditor change done by a company may be due to dissatisfaction with the performance of the external auditor in the previous period. In addition, a company changes its external auditor because it complies with government regulations, namely PP No. 20 of 2015 concerning the practice of public accounting which states that the provision of audit services on the historical financial statements of an entity by public accountants is limited to a maximum of five consecutive yearbooks. This finding is supported by the research conducted by Apriliana & Agustina, (2017) as well as Setiawati & Baningrum, (2018).

The Effect of CEO Education on Fraudulent Financial Report

CEO education does not affect fraudulent financial reports. It is due to the level of ability and educational background of a person is not a factor that drives someone to commit a fraudulent practice. The level of ability possessed by a CEO with a higher educational background will actually make the CEO more qualified so that he can make the right decisions when experiencing problems without having to commit fraudulent practices. This finding is supported by the research conducted by Lestari & Henny, (2019) and Kusumaningrum (2016).

The Effect of CEO Duality on Fraudulent Financial Report

CEO duality has no relationship with fraudulent financial reports. The CEO can take advantage of his position and improve his own performance to improve the company's performance to achieve the target in order to maintain his position as CEO. In addition, the CEO cannot commit fraud because of the supervision conducted by the board of commissioners and committees (Ratnasari & Solikhah, 2019). This finding is supported by the research conducted by Ratnasari & Solikhah, (2019), Chuzaini & Cahyaningsih, (2019).

The Effect of State-owned Enterprises on Fraudulent Financial Report

There is no relationship between state-owned enterprises and fraudulent financial reports. This is due to the stipulation of the Minister of Finance Number 741/1989, which regulates that state-owned enterprises are required to make financial reports for publication. In addition, there is supervision by the audit committee that is effective in supervising the process of financial statements that have been prepared through an investigation process with integrity and objectivity carried out by the auditors. Regarding the manipulation of financial data, the audit committee will help examine the financial statements so that they can be accounted for. This finding is supported by the research conducted by Chen et al., (2018) as well as Chantia et al. (2021).

The Effect of Political Connections on Fraudulent Financial Report

Political connections do not affect fraudulent financial reports. This is due to having political connection within a company does not drive fraud, but only as an effort to support the company. The bigger the size of the company, the bigger it also needs connections. Companies need a lot of support in financial accessibility, product development, licensing and the existence of political connections will get many benefits when they are in a regulated industry. This finding is supported by the research conducted by Sai, (2013), and Harymawan & Nurillah, (2017).

CONCLUSIONS

The results in this study that financial targets and external pressures have a positive effect on fraudulent financial reports. Meanwhile, financial stability, supervision effectiveness, quality of external auditors, auditor changes, CEO education, CEO duality, state-owned enterprises, and political connections do not have a relationship with fraudulent financial reports. The first conclusion in this finding is that if the financial targets within the company are getting higher in order to attract investors and show good performance so that fraudulent financial reports are more vulnerable, management might do it. Second, the pressure faced by management related to additional external pressure funds in the form of high credit risk indicates the large number of loans that push management to commit fraudulent financial reports to convince creditors. Suggestion for future researchers is expected to use other independent variables such as institutional ownership, board changes, and international experience of board members due to the small point of adjusted R2 in this finding, which indicates that many independent variables have not been able to prove their effect on fraudulent financial reports.

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