THE EFFECT OF GENDER ON BOARD, FINANCIAL EXPERTISE OF CEO, AND POLITICAL CONNECTION TOWARD FRAUDULENT FINANCIAL REPORTING IN INDONESIA

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ABSTRACT

The view of this study is to examine the effect of gender and expertise and political connection on a fraudulent financial statement. Financial Reporting is measured by managerial ability which presents with M-SCORE variable, gender on board, financial expertise, and political connection. The population used in this study are the countries in Indonesia listed in IDX and S&P Capital IQ for 2018-2021. In this study, a total of 100 industrial enterprises whose annual reports were made public and who disclosed their external auditors on the Indonesia stock exchange were chosen on purpose. STATA 17 is used to test the sample in this study using the multiple regression method. The study in this study shows the following result: the impact of gender on board towards fraudulent financial statements is significant, and the impact of political connection towards fraudulent financial statements is insignificant. Also, financial expertise towards fraudulent financial statements can't be defined.

Keywords: gender on board, financial expertise, political connection, fraudulent financial reporting, audit quality.

INTRODUCTION

In Indonesia, companies have an obligation to issue audited financial reports that are regulated on Financial Services Authority Circular (Surat Edaran OJK) No.16 (2021) that relates to the Annual Report of Issuers in Public Companies stated OJK must receive information regarding the company's annual report must submit no late than 120 days since the financial years end. The information is also required to meet the characteristics stated in the Statement of Financial Accounting Standards (2014) No.1 which is understandable, relevant, reliable, and comparable.

Even after the regulation, fraud still happens in financial reporting in Indonesia. Because of the inspiration and support from numerous sources, both inside and outside the company, fraud happens, especially on financial statements. Managers try several strategies to display strong financial statements to ensure they appear good and catch the attention of investors or potential investors. The methods used to commit fraud vary, from evading generally accepted accounting rules (Standard Financial Accounting) to carrying out aggressive earnings management to take actions that were later concealed and caused the company to go bankrupt. Cases of fake financial reporting, including those involving auditors, management, and particularly upper-level management, do not occur infrequently (Iswajuni, 2020).

Management's behavior and reasons/motives to commit fraud or fraud in the report finance is widely explained in the theory of fraud. A form of explanation or rationalization for management to misrepresent financial statements can also be found in the pressures that management faces in its capacity as an agent for investors (principals), such as pressure to enhance performance or boost the company's value on the stock exchange. (Chrisman, 2019). Moreover, if the opportunity (opportunity) to commit fraud, is also risky small to detect or detect. Opportunity will be an entry point for fraud, while pressure and rationalization will encourage management to commit fraud(Ozcelik, 2020). But fraud with complex techniques and large amounts of money are impossible without people with specific capabilities within the company. In other words, the person committing the fraud must be able to affect internal controls, maintain situational control, and devise a plan to hide his deception. Possessing a position that gives one a sense of superiority and arrogance, combined with avarice, gives the offender the conviction that internal control does not apply to them.

If the fraudulent financial reporting is not detected early, it can progress into a major scandal that is more detrimental to many parties. Study conducted by the Association of Certified Fraud Examiners found that 83% cases of fraud that occur are carried out by the owner of the company or the board of directors. In addition, Ernst & Young (2009) also discovered that management accounted for more than half of the fraudsters. Major accounting scandals such as Enron, have proven the serious impact of fraudulent acts financial statements for the economy of a country and provide many lessons for accounting and finance field. Indonesia also has a big fraudulent financial statement case such as Garuda Indonesia and Jiwasraya Insurance that become a great scandal of financial reporting which the director and CEO has a big influence and become mastermind of the great fraud scandal.

The people who committing the fraud must have the capability or competence to trick internal control often come from the upper management class. The CEO gender and expertise, and political connection will be the main topic of fraudulent in financial reporting in this research.

Indonesia is an interesting research laboratory for analyzing the influence of political connections and managerial proprietorship on firm value, for several reasons. One of them is, Indonesia is a country of emerging capital markets and tends to be segmented from world capital markets (Cheung and Lee, 2003). High company value indicates successful performance such that it becomes the owners' desire. The bigger the firm's worth, the greater the prosperity it will bring to its owner, and thus, the greater the value of the company, the more appealing it will be for outside investors to participate in it. (Wiagustini, 2013). The ownership structure is one of the components that affects the company's valuation. The ownership structure plays a significant role in determining the company's worth. The concentration of outsider ownership in a corporation (outsider ownership concentration) and management ownership in a company are two factors that must be taken into account (management ownership). The

difference between the management and the outside owner of the company is that the outside owner is less likely to be involved in the day-to-day operations of the company. (Sri Rejeki, 2007).

LITERATUR REVIEW

Agency Theory

Management as an employee who performs the actual operations are agents who work on behalf of the company. An agency is defined as a cooperative agreement between two parties in which one party (agent) acts on behalf of the other (principal). As the part of principle–agent problem, the company views as a set of legal contracts between different parties. The management who acted as the agent didn't think the company was theirs. Agency theory assumes individuals (agents) are self-interested and will behave in opportunism (Madison, Holt, Kellermanns, &Ranft, 2016). This can lead the management who acts as an agent to be the fraudulent agency which has been seen in decades as corrupt and fraudulent on financial reporting being the top list of internal audit checking.

Contradicted with agency theory, stewardship theory has an additional theory which more relevant to entrepreneurship. Stewardship relies on the model man that describes people more to self-actualizing and other-serving than be a self-interested and will behave opportunism (Davis et al., 1997; Hernandez, 2012). If people hold still in this principle of behavior the theory will assume classify personal interest in this principle that placing the function of company and organizational goals before themselves. Control environment, such as monitoring and incentive compensation systems, are unnecessary and potentially damaging, according to stewardship theory. It's can control over the fraudulent financial reporting if the company can apply this principle to the management.

Signaling Theory

While top executives enhance their company's ownership stakes, they communicate by signaling to financial markets that diversification regulations are in the best interests of the owners (Goranova, Alessandri, Brandes, at al, 2007). An initial public offering (IPO) board of directors is loaded with a variate group of well-known members to send a message to prospective investors that the company's well-known credibility (Certo, 2003; Filatotchev & Bishop, 2002). These concerns illustrate by means of one party can go about communicating its underlying norm to another.

The goal of signaling principle is to reduce the asymmetry of statistics among parties (Spence, 2002). On the labor markets of Spence's seminal work, as an example, illustrated how a process candidate would possibly take part in behaviors to reduce statistics asymmetry, which hampered potential employers' selection potential. Spence revealed how the pricey signal of rigorous higher education distinguishes prospective employees from low-quality potentialities. This discovery sparked a flood of studies that used signaling principle to options scenarios in a spread of fields, anthropology, zoology, and all in between (Bird & Smith, 2005).

Management have employed to help examine by signaling theory the impact of information asymmetry in a variety of study scenarios. According to a recent study of corporate governance, chief executive uses the visible quality of their

financial records to communicate to possible investors the un-observable quality of their enterprises (Zhang & Wiersema, 2009).
Diversification to describe how firms use heterogeneous boards to express commitment to political ideologies to a variety of organizational stakeholders utilize the theory of signaling, according to Miller and Triana (2009).

Financial Statement

As one of the management products, financial statement was the reporting that management make to provide the financial information about the reporting entity which in this case was the company that has been used in present or potentially equity investor, lenders, and another creditor for decision making (SFAC No.8). Financial statement has their own element based on Statement of Accounting Concepts No. 6. The first elements of financial statement were Revenues.
Revenues defines as throughout the period of providing or producing things, services that it provides, or other operations that represent the corporation's continuing principal cases, inflows or other improvements of assets or establishment of obligations. The second element of the financial statement were Gains. Except for those that results from revenues or investment by owners, growth in peripheral or minor transactions net assets of an entity within a period or several of time.
The third elements of financial statement were expense. Outflows or the other spending of the entity or companies by using up assets or incurrences liabilities (or even the mix up of assets and liabilities) during a period of time from the producing or delivering the goods, services, or carrying out others company's activities and operations. And the last elements of financial statements were losses. Decrease in an entity's net assets due to subsidiary or peripheral transactions, as well as all other transactions, measures, and situations affecting the organization throughout a period, excluding expenses or dividends to shareholders.
The Institute of Internal Auditors (2016) defines fraud as an illegal act characterized by deception, concealment, and a breach of trust. Taking advantage of money, services, property, company, and personal gain is not confined to physical violence. In the world of accounting and auditing, whether the mistake is due to fraudulent financial reporting or asset misappropriation, A major misstatement in financial accounts susceptible to audit is defined as fraud (Public Company Accounting Oversight Board, 2018).

Fraud Triangle

Source: Cressy (1953)

The Fraud Triangle Theory that proposed by Cressey (1953), is a three-factor fraud theory that explains why people commit fraud. The framework was created using information gathered from interviews with fraud convicts in the United States. The basic for fraud were determined to be pressure, opportunity, and justification. He defined pressure as an individual's financial hardship that leads to dishonesty as a technique of mitigating a hidden financial strain. Another crucial part of fraud is opportunity. By possessing a position, you have the opportunity to perform fraud without getting caught. Rationalization is the third important component of fraud. It is a personal reasoning that is led by personal manner. A false rationalization will lead the penetrators to believe that concealing something or deceiving others is acceptable.

To rationalization allowed individuals to reconstruct their behavior from what is unacceptable to what is acceptable, which lessens emotions of dissonance or guilt. (Bandura 1999). Typically, this situation leads to a skewed organizational culture in which it is acceptable for employees to engage in criminal behavior. The same logic frequently allows for deception (Zimbelman, C.Albrecht, W.Albrecht, and C.Albrecht, 2014). Rationalization, according to certain studies, has a consequential effect through the financial statement fraud. Two significant variables are total accruals (Nindito, 2018) and the auditor's modification (Pramana, Suprasto, Putri, & Budiasih,, 2019). Nonetheless, this indicator for justification in the audit opinion variable takes no outcome on financial statement fraud (Rengganis, Sari, Budiasih, Wirajaya, & Suprasto, 2019). This has something to do with corruption control.

A scenario or event that allows someone to do or conceal dishonest acts is known as an opportunity (Cressey, 1953). Empirical research reveals that when a company lacks a strong corporate governance system, the likelihood of manipulate financial statements increases. When possibilities grow, so does fraud (Cohen et al, 2011). Effectivity of corporate governance, which includes boards of directors, audit committees, internal controls, and external auditors, was critical in reducing the risk of fraud (Hogan, 2008). Internal control must be effective and powerful in order to limit the risk of fraudulent financial reporting (Doinea et al, 2012). Weak internal control, a lack of monitoring, and an insufficient separation of responsibilities, according to Kenyon and Tilton (2006), can all lead to fraud. Yusrianti et al. (2020) add to this list. The opportunity of fraud triangle can be connected to managerial ability.

One of the reasons of fraud is pressure. The attempt to accomplish an objective, which is the dealings of persons with the situation, is referred to as pressure or motivation (Robin and Judge, 2007). A money problem is the incentive for deception, whether it be a financial desire to increase one's standing, a financial problem caused by personal troubles, or a financial problem caused by fluctuations in the peripheral business environment (Cressey, 1953). Incentives are the key motivator for misleading financial reporting, according to C.Albrecht, C.Albrecht, and Dolan (2007). Financial

pressure is the most typical form of fraud pressure (Zimbelman et al, 2014). Managers' motivations for committing financial reporting fraud have a significant positive influence on the behaviors of those who commit financial reporting fraud (Ghozali, Achmad, & Pamungkas). This fraud triangle pressure is linked to political stability.

Financial Expertise variable in this study is the board studies and field background. One of the board members' financial histories that regulators are interested in is the one that has been the subject of the most extensive research. For instance, Beekes, Pope, and Young (2004) argue that for a monitoring mechanism to be effective, directors need to have sufficient incentives for monitoring and be aware of the effects of their financial reporting decisions.

If directors have the necessary financial experience, they might be able to comprehend the effects of financial reporting decisions. As a result, they are better able to comprehend the complexity of financial reporting, recognize questions that make managers think more critically, understand the judgment of auditors, and support the auditor in disputes between auditors and management (DeZoort & Salterio, 2001; Kalbers & Fogarty, 1993; Levitt, 2000; Mangena & Pike, 2005; Zhang, Zhou, & Zhou, 2007; Zalata at al, 2018).

CEO (Chief Executive Officer) is the highest position in company (executive) or administrator who is given responsibility for managing overall company activities. As a manager, the CEO oversees the organization's operations every day, month and year. In accordance with the results of studies that have stated earlier, women and men will act differently in face the same condition or problem. Women are known to tend to be more cautious and more risk averse than men (Barber & Odean, 2001).

In addition, Collins (2000), O'Fallon & Butterfield (2003), Vermier & Van Kenhove (2007), and Kaplan, et al (2009) in Gavious, et al (2012) stated that women tend to be more ethical in making judgments and actions than men and the presence of women in the ranks of top management will provide obstacles to the practice of violating financial reporting rules due to the involvement of gender issues in it. Thus, when a company is led by a CEO woman, one can expect that there will be a decrease in the offense rate financial reporting rules for the company.

H1: Female CEO has a positively effect on the fraudulent financial reporting.

H2: Financial expertise has positively effect on fraudulent financial statement.

Agency theory explains that the attitude of management can affect the relationship with shareholders. Marks (2012) adds the arrogance factor in detecting financial statement fraud, he says that arrogance is the arrogant or haughty attitude of someone who considers himself capable of committing fraud. This trait will trigger the belief that he will not be known if fraud has occurred and the existing sanctions cannot befall him. The element of arrogance can be seen through political connections. According to Simon, Khair & Yusof (2015) arrogance can be measured through the CEO of an entity that has political relations. Because the CEO thinks if he is an important person in improving the smooth running of the entity's business and the arrogant or

arrogant nature of the CEO, by using his extensive connections it can be used to cover up the fraud he has made. This is in line with the results of Turrahma's research (2019) that political connection has an influence on fraudulent financial reporting.

Indonesia is an interesting research laboratory for analyzing the influence of political connections and managerial ownership on firm value, for several reasons. One of them is, Indonesia is a country of emerging capital markets and tends to be segmented from world capital markets (Cheung and Lee, 2003). High company value indicates good performance achievement so that it becomes the desire of the owners. The higher the value of the company, the greater the prosperity that will be received by the owner of the company, for that the higher the value of the company, the more attractive it will be to outsiders to invest in a company (Wiagustini, 2013). One of the factors that influence the company's value is the ownership structure. Ownership structure is very important in determining the value of the company. Two aspects that need to be considered are (1) the concentration of company ownership by outsiders (outsider ownership concentration) and (2) company ownership by management (management ownership). The owner of the company from outside is different from the manager because it is less likely that the owner from outside is involved in the daily business affairs of the company (Sri Rejeki, 2007).

Companies that are politically connected are those that, in some cases, have ties to politics or the government or aspire to do so (Purwoto, 2011). According to Faccio (2006), a company is regarded as having political ties if at least one significant shareholder (someone who owns at least 10% of the company's shares with voting rights) or one of its executives (CEO, president, vice president, chairman, or secretary) is a member of parliament, a minister, or someone who is closely related to prominent politicians or political parties. When measured by their company's stock returns three years after the IPO, Fan et al. (2004) found that companies with CEOs with political links perform around 37% worse than those without political connections.

According to the findings of Faccio's (2006) study, political links negatively impact a company's financial higher compare to companies without political connections. This is conceivable because when politicians direct funds to certain businesses, it may distort incentives, lead to improper investment allocation, and worsen corruption (Shleifer and Vishny, 1994 in Ang et. al., 2010; Rosida &Setyawan, 2021).

H3: Political connection has negatively impact on financial reporting.

RESEARCH METHODOLOGY

Population and Sample

Secondary data will be used in this research, consequently that data are included in this research are not collected by us ourselves. Any financial statements and annual reported are collected from the companies' official website and S&P Global. The information on the stock price and companies' liabilities are retrieved from the companies' official website and S&P Global. The political connection, gender and expertise will be research from board of director from S&P Global database and IDX. The secondary

data needed for this researched included data related to days sales receivable index, gross margin index, asset quality index, sales growth index, depreciation index, SG&A expense index, leverage index, accruals assets index.

The population of the data is retailed, customer supplies, and technology information public company sector in for the period 2018-2020. The sample is selected by using purposive sampling method with criteria as follow:

1) The company is public retailed companies that listed on S&P Global Market for the period of 2018-2020.
2) The company never delisted from S&P Global Market, discontinued activities, and never changes the industry sector.
3) The company publishes the financial statements and audited annual report each year, especially on the observing period beginning from fiscal year ended December 31, 2018 until the fiscal year December 31, 2021.
4) The financial statements and annual report published by the company contain the necessary information such as net receivables, total sales, total assets, expenses, earning per shares, cash flow.

Table 1
Overview of Research Data

Descriptions	Total Companies
Total Indonesia companies which are listed on S&P Capital IQ in the financial year of 2018-2020	665
Companies that eliminated from the sample:	
Companies outside the industrial sector	(565)
Total companies that are taken as a sample in this study	100
Total samples taken within the financial year of 2018 -2020	300

Table 2
Descriptive Statistics

Variable	Obs	Mean	Std.dev.	Min	Max
Mscore	300	-0.8854	5.9177	-6.15	68.92
Finexp	300	1	0	1	1
Political	300	0.37	0.4836	0	1
Gen	300	0.7	0.4590	0	1
Big4	300	0.17	0.3762	0	1
Dual	300	0.63	0.4836	0	1
roa	300	0.8047	0.8	0.04	5.1
size	300	13.876	1.6905	8.63	18.62

The dependent variable of fraudulent financial statement score by M-Score has mean value of -0.8854. This indicates that fraudulent financial statement decrease score -0.8854 by 100 companies. If the score more than -1,78 the company are likely a manipulator. Which the score implies the company management still have change to be a manipulator.

Where the independent variable financial expertise has mean value 1. It means all the board of companies has financial expertise included. The lowest score for financial expertise was 0 with the highest

score 1. This variable data was run using dummies.
The independent variable of political connection was 0.37 to 1 as the highest score. This means the average political connection score has typically low connection to the government and unlikely has chance to be manipulator.
Another independent variable, gender of boards has score 0.7. As the lowest score was 0 and the highest score 1. The score 0f 0.7 was quite high as the gender of board has high change to manipulate the financial reporting.

Empirical Model

The probit regression of fraudulent financial reporting on managerial ability (Beneish, 2012).

M = -4,84 + 0,920*DSRI + 0,528*GMI + 0,404*AQI + 0,892*SGI + 0,172*SGAI

DSRI = Days Sales in Receivable Index
GMI = Gross Margin Index
AQI = Asset Quality Index
SGI = Sales Growth Index
SGAI = Sales General and Administrative Expense Index

Prob (FRAUD t+1 =1)= F(β0 + β1 GENDERt + β2FINEXPt + β3 POLITICAL t + β4BIG4t+ β5DUALt + β6ROAt + β7SIZEt +et)

FRAUD = Fraudulent Financial Reporting (M-Score Model)
FINEXP = Financial Expertise
POLITICAL = Political Connection
GENDER = Board Gender
BIG4 = Audit Quality
DUAL = Duality on Board
ROA = Return on Assets
SIZE = Company Size
e = Error

Hypothesis 1 (H1): Hypothesis 1 acceptable if β1 < 0 and statistically significant.
Hypothesis 2 (H2): Hypothesis 1 acceptable if β1 > 0 and statistically significant.
Hypothesis 3 (H3): Hypothesis 1 acceptable if β3 < 0 and statistically significant.

RESULT AND DISCUSSION

Several diagnostics have been performed to ensure that the data and model applied in this study's regression are suitable. This study was using Ordinary Least Square (OLS), and the following outcome are:

Table 3
Model Summary

Number of obs	=	300
F(6,293)	=	1.26
Prob > F	=	0.2759
R- Squared	=	0.0252
Adj R- Squared	=	0.0052
Root MSE	=	5.9023

Table tell us that the value of F = 1.26 and the coefficient of determination (R-Square) is 0. 025.This means the performance of financial reporting influence 2.5% by financial expertise, political connection, and gender on board. The rest of 97% caused by other factors than the ones mention above. The significant value has lowest 10%

Table 4
Hypothesis Test

	coefficient	Robust std. err.	t	P>|t|	[95% conf. interval]	
finexp	0	(omitted)				
political	-0.827	0.506	-1.63	0.103	-1.823	0.168
gen	0.575	0.583	0.87	0.385	-0.640	1.655
big4	-0.267	0.351	-0.76	0.448	-0659	0.424
dual	-0.085	0.732	-0.12	0.907	-1.526	1.354
roa	-0.824	0.369	-2.23	0.026	-1.551	-0.098
size	-0.307	0.186	-1.65	0.100	-0.674	0.059
_cons	4.101	3.306	1.24	0.216	-2.405	10.608

Financial Expertise to Financial Reporting
From the table above, it is shown financial expertise can be omitted, because all the data has the same number. This variable was omitted and cannot be regress because every company on the industrial sector has financial expertise in their board.
The coefficient value for financial expertise was omitted. Then, connection between financial expertise and financial reporting cannot be known. If the sample has more variation on company sector, financial expertise could be found.
Political Connection to Financial Reporting
The coefficient value for political connection was negative. This indicates the political connection give negatives impact towards financial reporting. The result of negative coefficient indicates the hypothesis was acceptable. The political connection also has significant towards financial reporting.
The significant can be shown as significant value was lower than the standard. Then, if the political connection has stronger on the board companies, it also means the quality of financial reporting will decrease. This can be bad for the company's sustainability and stakeholder can lose their trust on management.
This result also supported by Faccio (2006) and Rosida & Setyawan (2021), political connection has negatively affect companies financial reporting compare to the one has not. The happen because when the political figures have funds on certain business, it may distort incentives, lead to improper investment allocation, and worsen corruption.

Gender on Board to Financial Reporting
The coefficient value for gender on board was positive. This indicates the gender on board variable give positive impact towards financial reporting. The result of positive coefficient indicates the hypothesis was acceptable. But he genders on board has not significant towards financial reporting.

As the hypothesis was acceptable, but this variable not significant towards financial reporting. This can be shown as significant value was higher than the standard Then, if the board companies has more female board than the quality of the financial reporting will be increase.

As The result of this study align with the previous studies, Gavious (2012) stated that female CEO tent to be more emotional. This makes the decision making and action more ethical. This female CEO also can provide the obstacles to prevent the violation on financial reporting.

CONCLUTION

Conclution

Main focus on this paper, which to prove that the gender on board, financial expertise, and political connection has affecting the fraudulent financial reporting. Fraudulent financial reporting was determined by many factors including the gender on board, financial expertise, and political connection.

Based on the study result, we found that gender on board has positively impact the fraudulent financial reporting. This indicates that the more gender diversity or women on board, than the less fraudulent financial statement can be found. As the positive relationship, the conclusion of gender on board not highly significant when it's come to fraudulent financial reporting.

The political connection has different result from gender on board. In this studies, political connection has negatively affected fraudulent financial reporting. Because of this relationship, the better the political connection than the lower chance to have fraudulent financial reporting. This variable also has significant relation on fraudulent financial reporting. The financial expertise cannot be determined because of the same data on all sample, which make this variable became omitted.

Scope of Limitation

There is limitation exists in this study, and they are:

a) Data obtain are limited to the company listed from the S&P Capital IQ on the financial year of 2018-2020. It isn't equally distributed data; companies' observation is taken from industrial sector only.
b) Limitation from using only 4 types of variables, which are political connection, financial expertise and gender with variable control audit quality and dual role within board while there should have more additional elements that might influence the act of fraudulent financial statement.
c) Limitation to the time period of data taken in this study are limited to 3 financial years. While a study could be taken for 4-6 years.
d) Data observed is obtained from each company's annual report, and the value may be wrong related to inflation or other unreported misstated information, undetected fraud, or other financial report inaccuracy.
e) Because of the data limitations in this study, several of STATA 17 results are not normal or insignificant.

Recommendation

According to the result shown in this study, this writer provides some recommendation that might help future researchers:

a) In the future, the researcher may add more companies to observe, expand the sample size, and extend the samples include other industries such as energy, materials, manufacturing, health care, finance, information technology, communication services, utilities, and real estate.
b) In the future, researchers may increase the number of observation years, variables, and methods used to produce more accurate study results. It may also aid in the normalization of data observations in this study that are not distributed properly.
c) In the future, may take the data observation more than 3 years.
d) In the future, may the obstacle like inflation, misstated information, and undetected fraud can be solve.
e) In the future, the data limitation can be solved by increasing the sample and increasing the company's sector.

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