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Determinants of Financial Statement Fraud: Political Connections as Moderation

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Abstract
Financial statement fraud is a significant issue that negatively affects the company's external customers. Many studies regarding factors that influence fraud financial statements have been carried out. The purpose of this study is to examine and gather empirical data regarding the impact of financial targets, effectiveness monitoring, auditor switching, and political connections of financial statement fraud with political connections as a moderating variable. This study is anticipated to assist users of financial statements in making decisions and serve as a resource for other research.
The data in this study were obtained from the annual reports of transportation companies listed on the Indonesia Stock Exchange (IDX) for the period between 2017 and 2019. The sampling technique in this research was purposive sampling which produced 25 companies with the total analysis unit to 75 units. Data analysis methods used are descriptive statistical analysis and statistical analysis with absolute difference regression analysis and using the IBM SPSS 25 program.
The results of this research indicated that financial target and effectiveness monitoring affected on financial statement fraud, while auditor switching and political connections had no effect on financial statement fraud. In addition, political connections is able to weaken the effect of effectiveness monitoring on financial statement fraud and political connections is not able to moderate independent variables; financial targets and auditor switching on the financial statement fraud. This research is expected to be able to contribute in determining the policies of users of financial statements as well as being a reference for further research development. To ensure that the financial reports presented are correct and serve as a basis for decisions and policies as well as a form of information transparency for businesses and other stakeholders, organizations must enhance their vigilance in responding to financial statement fraud.

Keywords: Financial statement fraud, financial targets, effectiveness monitoring, auditor switching, political connections

Introduction
Recently, the development of fraud has expanded its reach and has a fairly high loss, both in Indonesia and abroad. The results of a survey report by ACFE (Association of certified fraud examiners) (2020) showed that fraud that occurs in Indonesia is still dominated by corruption (70%) then asset abuse (21%) and financial statement fraud (9%). But this is actually surprising where financial statement fraud has increased compared to the survey results 2 years ago, which was 2%. Financial statement fraud has recently been covered widely in Indonesian media, like in the case of Garuda Indonesia. Chairul Tanjung

said there was an inflated profit where the cooperation contract between Garuda and Mahatma worth $239.94 million was recognized directly in the first year of 2018, in fact that the contract was valid for 15 years, the cooperation contract between Garuda and Mahatma should not be recognized in full in 2018 (Gumiwang, 2019).
Fraud is a criminal act committed by a person or group to enrich themselves through the intentional misuse of organizational resources or assets (Wells, 2013). In more detail, fraud is divided into three categories in the fraud tree, namely; corruption, asset misappropriation and financial statement fraud. Financial statement fraud is the act of altering financial statements in order to deceive users of them in order to get personal or group benefits related to their position.

The financial target is one of the determinants or criteria that fraudsters may use to perpetrate financial statements fraud. Financial objectives are goals set by management or directors under undue pressure to maximize profits in order to improve the performance of the firm; the financial targets themselves can be approximated by the profitability of the business. In research conducted by (Pratiya and Susetyo, 2018), (Darmawan and Saragih, 2017), (Suyanto, 2009) shows that the projected financial target with profitability has a significant influence on financial statement fraud. As opposed to that, research conducted by (Agusputri and Sofie, 2019) and (Apriliana and Agustina, 2017) demonstrates that there are more elements, including the monitoring effectiveness factor, that can affect the occurrence of financial statement fraud. (Agusputri and Sofie, 2019) outlined how the low percentage of independent board of commissioners in the corporation, which makes the company's oversight ineffective and increases the likelihood of financial statements fraud, is one of the reasons of fraud.

Then research conducted by (Septriani and Handayani, 2018) found that companies with a higher frequency of auditor turnover means that the risk of financial statement fraud is higher, this is due to the auditors are not aware of any indications of financial statement fraud. Political connections are another element that may impact the occurrence of financial statement fraud. A firm and government officials or businesses with boards of directors with a clear political bias are said to have a political link, including BUMN/BUMD companies. Research conducted by (Liedong and Rajwani, 2018), (Wang et al., 2017) and (Chaney et al., 2011) found that companies that have political connections are encouraged to commit fraud, this is due to the companies do not care about quality. Financial statements that have the potential to hide errors or frauds, but businesses without political connections tend to have lower financial statement fraud rates.

Literature Review

Definition of Agency Theory

Agency theory, according to Jensen and Meckling (1976), describes a contract between management (as an agent) and an investor (principal). Because the agent might not always operate in the interests of the main, there is a conflict of interest between the owner and the agent. Due to the knowledge asymmetry, management may conceal data in the company's financial statements, committing financial statement fraud. When management has extensive contacts, access, and the potential for financial gain, fraud is a very real possibility.

Definition of Fraud

Fraud is an action that has been previously planned to deceive, trick, or manipulate other parties in a way that causes those other parties to suffer losses while the perpetrators, either directly or indirectly, profit financially (Kuntadi, 2015). From the chart of the occupational fraud and abuse classification system (the fraud tree), the ACFE (2018) in the RTTN 2018 report divides fraud into three typologies of action or commonly called the fraud tree namely; corruption, asset misappropriation and financial statement fraud.

Definition of Fraud Triangle and Fraud Diamond

In the 1950s, Donald Cressey conducted interviews in a prison with about 200 sources who committed embezzlement. Cressey concludes that there are three main factors for a person to commit fraud, namely: pressure, rationalization, opportunity (Singleton and Singleton, 2010). Wolfe and Hermanson, (2004) found a new perspective of the fraud theory, namely the fraud diamond. Fraud diamond is a theory that complements the theory of fraud triangle, in the theory of fraud diamond adds one element, namely capability. Wolfe and Hermanson (2004) argue that it is impossible for fraud to occur with a very significant amount of loss if no particular person has special capabilities such as a connection within the company.

Definition of Financial Statements Fraud

According to the understanding of Black Law Dictionary 8th in Priantara (2013) states that Financial statement fraud is described as a report or statement that is created intentionally or carelessly without considering whether it is accurate or fraudulent and is meant to persuade those with a vested interest in the report that results in a loss.

Definition of Financial Targets

Financial targets are financial targets that have been determined by the management or directors with excessive pressure to make profits so the company's performance works well. Financial targets according to (Skousen et al., 2009) can be proxied by return on assets t – return on assets t-1 ((ROA t) - (ROA t-1)) . Singleton and Singleton (2010) unrealistic financial targets/goals are one of the elements that give rise to substantial fraud. Overly optimistic goals or targets set by the company can lead to fraud by increasing abnormal profits.

Definition of Effectiveness Monitoring

According to Priantara (2013) The absence of or ineffective supervision provided by the board of commissioners is one of the factors that contribute to financial statement fraud. The high proportion of independent commissioners will improve the performance of the company's supervisory function. Because independent commissioners are more objective in thinking than the board of commissioners or directors.

Definition of Auditor Switching

Auditor switching is an act of a company or client in making a change with the aim of maintaining the independence of the auditor to remain objective in auditing the client's financial statements, both mandatory and voluntary.

Definition of Political Connections

Faccio (2006) explains that a company is deemed to have political connections if at least one shareholder holds at least 10% of the total voting shares or if the CEO, board of commissioners, or board of directors of the company is a member of parliament, a minister, or otherwise closely associated with leading politicians or political parties. The democratic system known as Pancasila, which was introduced in Indonesia after the fall of the old order, actually contributed to the rise of corruption because most of the crimes were committed by public servants who were regarded as trustworthy and directly elected by the populace. Public officials abusing their authority is a precursor to government corruption and fraud. (Syarif and Faisal, 2019).

Conceptual Framework

The Influence of Financial Targets on Financial Statements Fraud

Company managers are expected to give their all when performing their duties in order to hit the intended financial goals. The previous year's high ROA demonstrates the business's strong profitability and establishes the profit goal to be attained the following year. According to the findings of Darmawan and Saragih (2017) research, financial targets has a positive effect on the financial statement fraud.

H1: There is a positive effect of financial targets on financial statements fraud.

The Influence of Monitoring Effectiveness on Fraudulent Financial Statements

Utilizing an effective internal supervisory system is one technique to reduce fraud. When a business's internal control system is inadequate or poor at monitoring corporate performance, the opposite situation occurs (Septriani and Handayani, 2018). the percentage of independent commissioners serves as a proxy for effectiveness of monitoring (Skousen et al., 2009). The effectiveness of monitoring has an impact on financial statement fraud because the ratio of independent board of commissioners in a firm determines how effective or ineffective its supervision is, which in turn impacts how frequently financial statement fraud occurs.

H2: There is a negative effect of monitoring effectiveness on financial statement fraud.

The Influence of Auditor switching on Financial Statement Fraud

SA No. 316 indicates that there is a tension relationship between management and the current/predecessor auditors as an indication of financial statement fraud. According to several research, when the company's auditors change, the likelihood of audit switching rises (Skousen et al., 2009). The auditor is an independent party to uncover fraud committed by the company. As more corporations switch auditors, it may be assumed that they are doing so to conceal fraud. (Apriliana and Agustina, 2017).

H3: There is a negative effect of auditor switching on financial statement fraud.

The Influence of Political Connections on Financial Statements Fraud

Political connections play a significant role in the relationship between power and fraud, with the pursuit of power serving as a springboard for engaging in fraudulent behavior. (Kuntadi et al., 2022). Companies that have a strong political connection tend to have several advantages such as easier access to loans from banks, easier access to contracts from the government and when experiencing financial distress, the government will be easier to bail out (Chaney et al., 2011). Research conducted by Chaney et al., (2011) which states that companies are encouraged to commit financial statements fraud due to political connections.

H4: There is a positive political connection effect on financial statement fraud.

The Influence of financial targets, effectiveness of monitoring and auditor switching on financial statement fraud moderated by political connections

Companies that have a high level of ROA to meet the targets achieved will also have a high risk of committing fraud because the management will get high pressure. When a company has political connections and has power, the level of fraud will increase due to the pressure put on by the company to meet the predetermined goals and feel they have the power to fight the law, so, the relationship between financial targets and financial statement fraud can be moderated by political connections. Research conducted by Chaney et al., (2011) and Darmawan and Saragih (2017) show that political connections and financial targets can significantly influence financial statement fraud. Then the duty of carrying out the functions of supervision and control of fraud, one of them can be carried out by an independent board of commissioners. People or legal entities that have direct political connections will feel themselves "protected" if one day they are proven to have committed fraud, so the political connections can moderate the relationship between monitoring effectiveness and financial statements fraud. According to research conducted by Utami et al., (2020) shows that internal control which is part of effective monitoring has a significant influence on early warning of fraud. Meanwhile, companies that change auditors can also indicate a certain political interest to replace the previous auditor. On the other hand, auditor turnover is considered an effort to reduce the effectiveness of auditor performance because it requires more time to adapt, so the political connections can moderate the influence between Auditor switching and Financial Statement Fraud. This is confirmed by research conducted by (Omukaga, 2021) finding that auditor turnover has an effect on financial statement fraud.

H5: Political connections can moderate financial targets on the financial statement fraud.
H6: Political connections can moderate effectiveness of monitoring on the financial statement fraud.
H7: Political connections can moderate auditor switching on the financial statement fraud.

Research Method

This research was a causal study aimed to test the hypothesis of variable influence, specifically the effect of the independent variables on the dependent variable. This was secondary research, which indicates that the information was not gained directly but rather from a second or intermediary source. The companies in the transportation sector that are listed on the IDX made up the study's sample between 2017 and 2019, totaling 33 companies. The reason for choosing a company in the transportation sector in this research was because the researcher wanted to explore further cases that occur in transportation companies, especially cases of fraud that occurred at PT. Garuda Indonesia, Tbk. The sampling technique was carried out by purposive sampling which aimed to obtain a representative sample in accordance with predetermined criteria as follows:

(1) A transportation firm that continuously appeared on the IDX from 2017 to 2019.
(2) Financial reports for 2017–2019 were presented by the transportation sector
(3) Data from the research were supplied by the transportation sector.

Researchers use the conservatism index formula to measure the determinants of financial statement fraud: political connections as moderation in the operationalization of variables, and the formula requires accounts receivable and accounts payable figures.

Table 1: Variable Operationalization

Variables	Initial	Indicators	Source
Financial statements fraud	Fraud	F-Score =Accrual Quality+Financial Performance.	(Dechow *et al.*, 2011)
Financial target	FT	(ROA t – ROA t-1)	(Skousen et al., 2009)
Effectiveness monitoring	EM	A comparison between the percentage of independent commissioners and the number of commissioners	(Skousen et al., 2009)
Auditor switching	AS	If the Public Accounting Firm changed over the 2017–2019 period, the dummy variable was recorded as 1, otherwise it was coded as 0.	(Sihombing and Rahardjo, 2014)
Political connection	PC	A dummy variable with 1 for one of the corporate governance organs that has held or currently had a political connection/BUMD/BUMD company, and 0 for a corporate governance organ that has never held a politically connected position.	(Sabrina et al., 2020).

The analytical method in this research assisted with the IBM SPSS 25 software, through the following steps:
(1) Descriptive Statistical Analysis
(2) Classic assumption test
(3) Multiple Regression Analysis and Moderated Regression Analysis (MRA)
(4) Hypothesis Test, consisting of: Statistical Test t and F
(5) Determination Coefficient Test (R2)

The following is the regression model formed in this research

Fraud = α + β1FT + β2EM + β3AS + β4PC + € (before MRA interaction test) (1)

Fraud = α + β1FT + β2EM + β3AS + β4PC + β5FT.PC + β6EM.PC + β7AS.PC + €
(After MRA interaction test) (2)

Where:

β0	: Constant
β1, β2, β3.......	: Regression coefficient
Fraud	: Financial Statements Fraud
FT	: Financial target
EM	: Effectiveness monitoring
AS	: Auditor switching
PC	: Political Connection
€	: Error

Results

Descriptive Statistics

In this research, descriptive statistics are presented in Table 2, it can be seen that the financial statement fraud (Fraud) for the 2017-2019 period shows a minimum value of -1,1265 contained in the company PT. Indonesia Transport And Infrastructure Tbk in 2019. While the maximum value of 1.5655 at PT. Ekasari Lorena Transport Tbk in 2018. With an average value (mean) of 0,07078, where the average value of the negative fraud variable indicates that an average of 7% of companies commit financial statement fraud with a pattern of income decreasing /income minimization and standard deviation with a value of 0,5477.

Financial target (FT) has a minimum value of -0,3463 which is owned by PT. Pelayaran Nasional Bina Buana Raya Tbk in 2017, while the maximum value is 0,3272 which is owned by PT. Ekasari Lorena Transport Tbk in 2018. With an average value (mean) of -0,0011, where the average value of the negative financial target variable indicates that an average of 0.1% of companies have carried out financial targets with income decreasing patterns /income minimization and standard deviation with a value of 0,1147.

Furthermore, Effectiveness monitoring (EM) has a minimum value of 0.25 which is owned by PT Ekasari Lorena Transport Tbk in 2018 and 2019, while the maximum value of 0.6667 is owned by PT. Berlian Laju Tanker Tbk in 2017-2019. With an average value (mean) of 0,4128, this indicates that on average as many as a number of companies already have an independent commissioner composition of 40% of the total number of commissioners and a standard deviation of 0,1085.

Auditor switching (AS) shows an average value of 0,18 indicating that from all companies as many as 18% of companies (13 observations) are classified as changing auditors and as many as 82% of companies (62 observations) are classified as not changing auditors.

Political connections (PC) show an average value of 0,125 indicating that of all companies as many as 12,5% of companies are classified as having political relationships or connections both individually and corporately including PT. Garuda Indonesia (Persero) Tbk which is a State-Owned Enterprise (BUMN) and as many as 87,5% of companies (63 observations) are classified as having no political relationship or connection either individually or corporately.

Table 2: Descriptive Analysis

Var.	Min.	Max.	Mean	Std. Deviation
Fraud	-1,12649	1,56552	0,070781	0,547644294
FT	-0,3463	0,3272	-0,00112	0,114693619
EM	0,25	0,66667	0,412763	0,10859367
AS	0	1	0,180556	0,38734884
PC	0	1	0,125	0,333039777

Source: SPPS 25 output

Hypothesis Testing

The objective of testing the classical assumptions was to avoid bias in data analysis and misspecification of the regression model used, which refers to the Best Linear Unbiased Estimator (BLUE). The results of this research yielded an adjusted R square value of 0,198, indicating that the variables of financial target, effectiveness monitoring, auditor switching, and political connection can affect the financial statement fraud by 19,8%, with the remaining 80.2% attributed to the contribution of other independent variables not tested in this research. The F test results showed a value of 3,928 with a sig value of 0.006, less than 0.05, indicating that the model used in this research was declared fit.

Table 3: Regression Results before Moderated Regression Analysis (MRA)

No	Var.	B	t	Sig	Result
1	**FT**	1,443	2,740	0,008	Accepted
2	**EM**	-1,383	-2,426	0,018	Accepted
3	**AS**	-0,289	-1,833	0,071	Rejected
4	**PC**	0,111	0,597	0,552	Rejected

Source: SPSS 25 output

Table 4: Regression Results after Moderated Regression Analysis (MRA)

No	Var.	B	t	Sig	Result
1	**FT*PC**	-0,012	-0,009	0,992	Rejected
2	**EM*PC**	-6,300	-2,716	0,008	Accepted
3	**AS*PC**	0,121	0,292	0,771	Rejected

Source: SPSS 25 output

The outcomes shown in table 3 are as follows:

- Financial target (FT) obtained a significance value of less than 0.05, which was equal to 0.008, implying that financial target had an impact on the financial statement fraud.
- Effectiveness monitoring (EM) obtained a significance value of less than 0.05, which was equal to 0.018, implying that effectiveness monitoring had an impact on the financial statement fraud.
- Auditor switching (AS) obtained a significance value greater than 0.05, which was equal to 0.071, indicating that H3 was rejected, implying that auditor switching did not affect on the financial statement fraud.
- Political Connection (PC) obtained a significance value greater than 0.05, which was equal to 0.552, indicating that H4 was rejected, implying that political did not affect on the financial statement fraud.

Meanwhile, the results from table 4 are as follows:

- Financial target (FT) moderated by political connection (PC) received a significance value of 0.992, above the level of 0.05, implying that H5 was rejected, implying political connection could not moderate the influence of Financial target on the financial statement fraud.
- Effectiveness monitoring (EM) moderated by political connection (PC) received a significance value of 0.008, which is less than 0.05, implying that H6 was accepted, implying political connection could moderate the influence of effectiveness monitoring on the financial statement fraud.
- Auditor switching (AS) moderated by political connection (PC) received a significance value of 0.771, above the level of 0.05, implying that H7 was rejected, implying political connection could not moderate the influence of auditor switching on the financial statement fraud.

Discussion

The Influence of Financial Targets on Financial Statements Fraud

The findings of this research showed that financial target had a significant positive effect on financial statement fraud, it suggests that management will attempt to surpass the goals reached in the previous quarter if the company had great profitability in the prior period. This tends to motivate management to falsify or modify financial statements in order to demonstrate that the business has achieved its profit goal, especially when the actual condition of the company is unable to meet the predetermined profit targets. The findings of this research were consistent with previous research by Rengganis et al., (2019) which found that the variable financial target had a positive effect on financial statement fraud. Research by Sunardi and Amin (2018) and Fitri, Syukur and Justisa (2019) also showed that target finance with a proxy for the ratio of return on assets (ROA) had an effect on financial statements fraud. Financial targets were one of the proxies of the pressure element which was an element in the diamond fraud theory. However, this research contradicted the findings by (Evana et al., 2019), Syahria, Kusumawati and Ervanto (2019) and Aulia Haqq and Budiwitjaksono (2020) which showed that there was no influence of financial targets on financial statement fraud.

The Influence of Monitoring Effectiveness on Financial Statement Fraud

According to the findings of this research, effectiveness of monitoring had a significant negative effect on financial statement fraud, this explains that if the company had a good internal control function carried out by an independent commissioner, the practice of financial statement fraud will decrease or even be avoided. Conversely, if the supervisory function did not run effectively, financial statement fraud would become more prevalent. This is possible given the rising likelihood of fraud opportunities brought forth by the independent commissioner's lack of oversight. These outcomes were consistent with research carried out by Andriani et al., (2022) which states that the existence of independent commissioners tended to reduce the potential for fraud that would arise. However, this result was not in line with the research conducted by Achmad, Ghozali and Pamungkas, (2022), Purwanti et al., (2022) and Murtado et al., (2022) which state that the effectiveness of monitoring has no effect on financial statements fraud.

The Influence of Auditor Switching on Financial Statement Fraud

The third hypothesis (H3) was rejected. Switching auditors had no impact on financial statement fraud in this study. This resulted from the following; according to descriptive statistical information, just 13 firms moved auditors during the observation year, compared to 59 other companies, which is a very low frequency. This information made auditors switch because they couldn't produce meaningful outcomes. The findings of this study were consistent with those of research carried out by Nuristya and Ratmono (2022) and Purwanti et al., (2022) which stated that there was no effect of auditor switching with financial statement fraud. However, this result was different from Omukaga (2021) who found that auditor switching had an effect on financial statement fraud.

The Influence of Political Connections on Financial Statement Fraud

The fourth hypothesis (H4) that the effect of political connections on financial statement fraud was rejected. Companies that have political connections or do not want good and transparent financial reports to maintain the company reputation and credibility before the public. Companies that have political connections do not take advantage of their capabilities to manipulate or commit fraud in preparing and reporting company financial reports so political connections cannot influence the occurrence of financial statement fraud. The findings of this research were consistent with previous research by Sabrina et al., (2020), Sagala and Siagian (2021) and Aulia Haqq and Budiwitjaksono (2020) showed that there was no evidence found that the company’s political connections allowed the potential for financial statements fraud to be found in companies. While the research conducted by Chaney et al., (2011) which stated that companies were encouraged to commit fraudulent financial statements due to political connections.

The Influence of Financial Targets, Effectiveness Monitoring and Auditor Switching on Financial Statement Fraud Moderated by Political Connections

The results of this research were that political connections could not moderate the effect of financial targets on financial statement fraud. This demonstrated that despite the corporation's direct political connections, the greater and lower financial targets set by the company would not alter the financial statements deception. This result was strengthened by research conducted by Sabrina et al., (2020) and Yulianti et al., (2019) which stated that political connections had no effect on financial statement fraud.

The analysis result showed that political connections could weaken the effect of the effectiveness monitoring on financial statement fraud. When the company had a direct political connection, the supervisory function would reduce its effectiveness in monitoring the company so it can lead to financial statements fraud. The supervisory function that had political connections would feel that it had more power over its power so it was not more effective than the supervisory function that did not have political connections. This result was strengthened by research conducted by Andriani et al., (2022), Ritonga and Apriyani (2019) and Chaney et al., (2011) which stated that the effectiveness of monitoring and political connections had an effect on financial statements fraud and research.

The analysis results showed that political connections could not moderate the relationship between auditor switching and financial statement fraud. Changing the auditor is a natural thing that is done by both companies have political connections or not. This is because it has been regulated by the OJK to replace the auditors every three years to maintain the independence of the external auditors themselves. This result was reinforced by research conducted by Nuristya and Ratmono (2022) and Purwanti et al., (2022) showed that auditor switching and political connections had no effect on financial statement fraud. Meanwhile, research conducted by Omukaga (2021) and Chaney et al., (2011) which stated that auditor switching and political connections had an effect on financial statement fraud.

Conclusion

Based on the data analysis and discussion that have been done, it can be concluded that the financial target had a significant positive effect on financial statement fraud, it implies that financial statement fraud was more common because of higher financial targets. Monitoring effectiveness had a significant negative effect on financial statement fraud, which means that the more independent commissioners of the company, the more effective the supervisory function would be so the practice of financial statement fraud can decrease. Auditor switching had no effect on financial statement fraud, this was because auditor switching has been regulated in OJK regulations to maintain the independence of public accountants. So that companies, whether they change auditors or not, will not affect financial statement fraud. Political connections had no effect on financial statement fraud, for companies that have political connections or not, transparency and accuracy of financial reports is something that must be implemented in every company, this is to maintain the company's reputation and credibility in front of the public. Political connections could not moderate the target's financial relationship to financial statements fraud. Political connections could moderate the relationship between monitoring effectiveness and financial statement fraud. Political connections could moderate the relationship between auditor switching and financial statement fraud.

Suggestions

There are a number of limitations with this research that require future research, the first is that the rejected theory was most likely the result of 3 years' worth of insufficient investigation. The sample in this research is very limited, namely only transportation companies listed on the IDX. Consequently, it is advised that additional research be carried out using samples from sources other than transportation companies, as well as the addition of variables that were not included in the present research.

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