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Does corporate governance and political connections influence the potential for financial statement fraud?

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ABSTRACT

The aim of this research is to analyze the influence of corporate governance and political connections on the potential for financial statement fraud in extractive industry companies listed on the IDX for the 2018-2023 period. The sampling was performed using the purposive sampling method. A logistic regression analysis was performed. The results of this research indicate that corporate governance proxied by the frequency of audit committee meetings, managerial ownership, and related party transactions has a positive effect on the potential for financial statement fraud, while the size of the board of directors has no effect. Political connections proxied by government ownership and politically connected boards negatively affect the potential for financial statement fraud. The addition of control variables, namely firm growth, has a positive effect on the potential for financial statement fraud, whereas firm size has no effect.

Introduction

Financial statement fraud remains a global problem with a significant negative impact on companies and related stakeholders (Craja et al., 2020). This study focuses on analyzing corporate governance and political connections through several proxies selected based on (1) fraud risk factors reported by global associations and (2) corporate fraud risk factors in the extractive industry.

The Association of Certified Fraud Examine (ACFE) in Occupational Fraud 2022 states that Indonesia is ranked fourth as a country in the Asia-Pacific region with the highest number of fraud cases, namely 23 cases in 2022. The potential for financial reporting fraud, especially in extractive industries, often goes undetected; for example, in the case of PT Timah Tbk, which occurred in 2015-2022, and indications of this manipulation were only discovered in 2019 by the Financial and Development Supervisory Agency. Previously, a lack of transparency in the preparation of PT Bumi Resources Tbk's financial reports in 2012-2013 also occurred and involved affiliated transactions.

A survey conducted by the Asian Corporate Governance Association (ACGA) and CLSA Limited (CLSA) published in the 11th biennial CG Watch 2023 reported that Indonesia was ranked twelfth (percentage value 35.7) out of the 12 countries surveyed, along with increasing corruption and inside traders compared to Singapore in second place (percentage value 64.6) and Malaysia in fifth place (percentage value 61.5). This shows that corporate governance problems still exist in Indonesia. Top management plays a vital role in implementing good corporate governance to support accountability and transparency and reduce the risk of financial reporting fraud (Nasir et al., 2019). Although the company has corporate governance attributes in accordance with applicable regulations, it still faces the risk of financial reporting fraud from a corporate governance perspective.

Previous studies have analyzed the influence of corporate governance on financial statement fraud, where the size of the board of directors, frequency of audit committee meetings, and managerial ownership have a negative influence on financial statement fraud. (Kurnia et al., 2024; Kaituko et al., 2023; Purwiyanti & Laksito, 2022; Probohudono et al., 2022; Brogi et al., 2021; Nurcahyono et al., 2021; and Kusuma & Fitriani, 2020). The results of this study indicate that companies with governance attributes that increase internal monitoring efforts by increasing the size of the board of directors and the frequency of audit committee meetings, as well as preventing conflicts of interest by increasing managerial ownership, are less likely to commit financial statement fraud.

Related party transactions in corporate governance encourage financial statement fraud (El-Helaly, 2018). Researchers specifically want to explore the perspective that related-party transactions create conflicts of interest that compromise agency responsibilities to principals. Related party transactions often contain special rights or

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conditions that are a challenge for corporate governance. In addition, the high number of related party transactions carried out by companies in the extractive industry has raised researchers' curiosity about their impact on the potential for financial statement fraud.

Kabwe (2023) and Daresta and Suryani (2022) explains that related party transactions have a positive effect on financial statement fraud. Related party transactions tend to be carried out to manipulate financial reports by transferring wealth (tunneling) from shareholders (Habib et al., 2017) and pose a higher risk of financial statement fraud.

Apart from corporate governance issues, Bertrand et al. (2018) state that the risk of fraud is higher because of political connections for companies that are not balanced with other benefits. The business process of companies in the extractive industry is closely related to the licensing process for managing natural resources by private and state-owned companies that involve various levels of government officials. Meanwhile, the government must ensure that natural resources are managed for community welfare, as regulated in Article 33, paragraph (3) of the 1945 Constitution of the Republic of Indonesia. The tug of war between business and political interests has the potential to cause fraud.

Indonesia has a strong political influence in extractive industries, as seen from the large number of officials or former government officials and members of political parties who hold positions on the company's board of directors (Kholid et al., 2023). Politically connected companies have the advantage of better accessibility to resources and ease complying with regulations. However, the risk of manipulation and control of resources that are not accountable and transparent also increases. Political connections in companies can be formed through the nature of share ownership such as government ownership (Zhang, 2018).

Business and politics have a gray area that makes it difficult to identify the losses and profits that may arise amid a tug-of-war between business and political interests. Previous studies have analyzed the effect of political connections on financial reporting fraud, where government ownership has a negative effect on financial reporting fraud (Ababneh & Aga, 2019). The government is obliged to implement accountability and transparency by ensuring that companies are under strict supervision, easy access to regulatory compliance, public trust, and maintaining the company's reputation by preventing fraud in the company.

Politically connected boards of directors are also at risk of increasing financial reporting fraud too. Several studies have shown that political connections held by the board of directors have a positive effect on financial reporting fraud (Wang et al., 2024; Maulidi et al., 2023; and Sudirman et al., 2023). Boards of directors who hold political positions or have political connections have the power to transfer wealth between groups, thereby contributing to the potential for financial reporting fraud.

Based on the background description, this research focuses on corporate governance, which will be viewed from the perspective of the size of the board of directors, audit committee meeting frequency, managerial ownership, related party transactions, and political connections proxied by government ownership and politically connected boards on the potential for financial statement fraud. This study uses a sample of companies in the extractive industry listed on the Indonesia Stock Exchange (IDX). This study uses company size and growth as the control variables.

Literature Review

Agency Theory

Jensen and Meckling (1976), in his research entitled "Theory of the firm: managerial behavior, agency costs and ownership structure" explain that agency theory is a contract in which one or more owners involve agents to pay attention to work for their interests by delegating decision making. The principal in this theory is played by shareholders or company owners, and agents are played by people in company management positions such as the board of directors of the company. The separation of ownership and control over the management of a company can increase the conflict of interest between the principal and agent (Fama & Jensen, 1983), which, in turn, raises the risk of financial statement fraud. Therefore, agency theory can be used to provide a basic understanding of corporate governance and financial statement fraud.

Accountability Theory

Accountability theory focuses on opinions, decisions, or behaviors related to moral or ethical issues. Accountability basically implies anticipation of "accounting," or having to report or explain oneself to others in the future (Dose & Klimoski, 1995). Accountability theory can explain the relationship between agents and principals by emphasizing the consequences of facing accounting with the assumption that the principal determines the conditions that the agent must face. Therefore, the principal's role is dominant in terms of supervision.

The government, as a shareholder of a public company, allows them to conduct more effective supervision of the company's management to reduce the potential for fraudulent financial reporting. The government also does not want any unethical actions by company management that can affect the image or public opinion of both the company and government, especially in anticipating failure to achieve accounting accountability. However, it should be noted that what is not observed in most accountability theories is the power of individual agents. The accountability theory explains the relationship between the government as the principal and the director as the agent.

Positive Accounting Theory

Positive accounting theory predicts that taxes, regulations, management compensation plans, information costs, and political costs determine accounting choices (Watts and Zimmerman 1978). Political costs are the government-imposed wealth transfers from the private sector. The political cost hypothesis predicts that firms use discretion in accounting choices to orchestrate the emergence of lower earnings in response to increased threats of political costs (Watts & Zimmerman, 1978). Therefore, political cost factors explain the relationship between corporations and politics.

According to this theory, the political sector has the power to influence wealth transfers between groups, while the corporate sector is very susceptible to this redistribution of wealth to shift earnings lower so that financial statements are unaccountable. Boards of directors who hold political offices or have political connections have the power to transfer wealth to their personal or group interests, thereby increasing the potential for financial statement fraud.

The effect of the size of the board of directors on the potential for financial statement fraud

Based on the Financial Services Authority Regulation or Peraturan Otoritas Jasa Keuangan (POJK) Number 33/POJK.04/2014 in Bahasa, the board of directors supervises the policies. The role of the board of directors is essential to ensure that the company is run to maximize the interests of owners and minimize agency conflicts.

The board of directors oversees the implementation of corporate governance. Therefore, the board of directors is an important instrument to prevent fraudulent financial reporting. Previous studies have shown that the board of directors has a negative influence on financial reporting fraud (Kurnia et al. 2024; Setianingsih et al., 2024; Diah et al., 2023; Dahlan & Andesto, 2022; and Brogi et al., 2021). A larger board of directors will provide more resources for the company to oversee management and prevent financial reporting fraud. Therefore, the first hypothesis is formulated as follows:
H_1: The size of the board of directors has a negative effect on the potential for financial statement fraud.

The effect of audit committee meeting frequency on the potential for financial statement fraud

The audit committee manages and follows up on reports of potential violations or fraudulent acts committed by company management, such as managers and directors. Good corporate governance requires open discussions between the Board of Directors and the Board of Supervisors (Monks & Minow, 2021). The frequency of audit committee meetings may be increased to achieve good corporate governance. Based on POJK Number 55/POJK.04/2025, the audit committee is required to hold regular meetings at least 1 (one) time in 3 (three) months and attended by at least 50% (fifty percent) of members.

An audit committee meeting is held to monitor, supervise, and discuss the company's financial information to detect and follow up on fraud. Audit committee meetings are held to supervise financial statements to reduce the risk of agency conflict due to information asymmetry. Previous studies have shown that the frequency of audit committee meetings has a negative effect on financial statement fraud (Negoro & Wakan, 2022; Purwiyanti & Laksito, 2022; Dewi & Anisykurlillah, 2021; Nurliasari & Achmad, 2020). More frequent audit committee meetings may result in a higher level of oversight because the audit committee can devote more time to carrying out their duties. Therefore, the second hypothesis is formulated as follows:
H_2: Frequency of audit committee meetings has a negative effect on the potential for financial statement fraud.

The influence of managerial ownership on the potential for financial statement fraud

Jensen and Meckling (1976) explain that managerial ownership is the active participation of individuals in a company's decision-making process. Aency conflict stems from managers' tendency to take advantage of company resources for themselves. Therefore, managerial ownership is expected to be an incentive that encourages managers to devote their best efforts to the company.

Managerial ownership helps reduce managers' motivation to increase their personal interests by ignoring shareholders' interests (Rostami & Rezaei, 2022). Managers will be motivated to want reliable information because it will affect their investment results so that they can try to prevent fraudulent behavior. Previous research has shown that managerial ownership has a negative effect on the occurrence of financial statement fraud (Shan et al., 2024; Yendrawati et al., 2023; Hudono et al. 2022; Nurcahyono et al. 2021; Kusuma & Fitriani, 2020; and Utomo

et al., 2019). The higher managerial ownership, the more it encourages management to carry out their role in accordance with the interests of shareholders and avoid unethical actions that can have a negative impact on the company. Therefore, the third hypothesis is formulated as follows:
H_3: Managerial ownership has a negative effect on the potential for financial statement fraud

The impact of related party transactions on the potential for financial statement fraud

Hope and Lu (2019) stated that related-party transactions are also part of corporate governance. Related party transactions are business agreements or deals with related parties who have a special relationship and have a specific purpose, so the risk of material misstatement is higher than that of transactions with unrelated parties (Yendrawati & Hernanda, 2022). Regulations related to related-party transactions are specifically emphasized in POJK Number 42/POJK.04/2020 concerning affiliated transactions and conflicts of interest transactions. Furthermore, PSAK No. 7 explains that related-party transactions are the transfer of resources, services, or obligations between the reporting entity and related parties, regardless of whether a price is charged, thus increasing the risk of financial statement fraud.

Related party transactions create conflicts of interest that can jeopardize agency responsibilities to principals. Related party transactions often contain special rights or provisions that may violate corporate governance if such transactions are used as a means of transferring or tunneling wealth from shareholders for personal gain or benefit (Habib et al., 2017). Previous research shows that related party transactions have a positive effect on financial report fraud (Kabwe, 2023; Ismail Khan & Muhammad Hapiz, 2022; Daresta & Suryani, 2022; Tarighi et al., 2022; Pakdelan et al., 2022; Zimon et al., 2021). The more complex the related party transactions, the more severe the financial statement manipulation carried out by the management. Therefore, the fourth hypothesis is formulated as follows:
H_4: Related party transactions have a positive effect on the potential for financial statement fraud

The effect of government ownership on the potential for financial statement fraud

Government ownership is a condition in which the government becomes a part of a company’s shareholders. The political relationship of the owner can be proxied by the nature of the ownership of a company, such as government ownership (Zhang, 2018). When political ties are built through partial ownership by government agencies, more lenient law enforcement is offset by the conflicting incentives of the government as tax collectors (Preuss & Königsgruber, 2021). When political relations are built through partial ownership by a government-owned enterprise, it allows government intervention to exercise control or authority over a company, which can affect management supervision, including how company resources are managed and reported in financial statements to comply with regulations.

Based on accountability theory, the government, as a shareholder of a public company, allows them to carry out more effective supervision of the company's management, thereby reducing the potential for financial reporting fraud. As a principal, the government does not want a greater risk of unethical actions by company management that can affect the image or public opinion of both the company and the government, especially in anticipating a failure to achieve accounting accountability that allows fraud to occur. Previous studies have shown that government ownership has a negative effect on financial reporting fraud (Liang et al., 2023; Ababneh & Aga, 2019; and Wu et al., 2016). The government has an obligation to implement accountability and transparency to the public, encouraging their companies to implement good management and provide positive incentives for ethical management behavior (Ruhnka & Boerstler, 1998), sustainable access to information and resources (Boso et al., 2017), ensure public trust because government-owned companies tend to be the focus of critical media attention (Preuss & Königsgruber, 2021), and provide ease of compliance with regulatory provisions, thereby reducing the potential for financial reporting fraud. Therefore, the fifth hypothesis is formulated as follows:
H_5: Government ownership has a negative effect on the potential for financial statement fraud.

The influence of politically connected board on the potential for financial statement fraud

Faccio et al. (2006) defines a company as having political connections if at least one of the company's top officials (corporate executives, board of directors or directors, or majority shareholder (controlling at least 10% of the company's voting shares) is a head of state (i.e., president, king, or prime minister), government minister, member of the national parliament, political party or politically affiliated. Politically connected boards can use political connections as a tool to gain personal gain through their ease in obtaining business contracts and manipulating them in financial reports (Brugués et al., 2024; Sudirman et al., 2023). The strong dominance of political connections held by the board will make it difficult for the company to continue to carry out governance, thus increasing the risk of financial reporting fraud.

Watts and Zimmerman's (1978) positive accounting theory posits that the political costs factor can explain the relationship between corporations and the political sector. The political sector has the power to influence the transfer of wealth between groups, while the corporate sector is highly susceptible to wealth redistribution. Therefore, politically connected boards have the power to transfer wealth between groups for their own benefit, rather than for the interests of shareholders, and create a conflict of interest. Previous research shows that executives with political connections have a positive effect on the occurrence of financial statement fraud (Wang et al., 2024; Maulidi et al., 2023; Sudirman et al., 2023; Rezazadeh & Mohammadi, 2019). Therefore, the sixth hypothesis is formulated as follows:

H_6: Political connections of the board of directors have a positive effect on the potential for financial statement fraud.

Research Methods

Population and Sample

The population of this study comprises companies in the extractive industry listed on the Indonesia Stock Exchange for the period from 2018 to 2023. Sampling using the purposive sampling method based on three criteria: (1) Indonesian companies included in the category of companies in the extractive industry and listed on the IDX for the period 2018-2023; (2) companies in the extractive industry categorized into two main classifications according to the IDX Industrial Classification (IDX-IC), namely, the energy and raw materials sectors that carry out exploration and mining business activities, including supporting service providers, such as consulting services, construction, and transportation of mining products; and (3) companies that disclose annual reports and data needed in this study during the period 2018-2023.

Based on the sample selection criteria, 34 companies with a research period of six years were obtained. Therefore, the total sample size was 204. The data were obtained from the company's annual reports via the IDX website.

Table 1. Research Variables and Variable Measurement

Variable	Label	Measurement
Size of the board of directors	BCSIZE	Total number of members of the board of directors (Wicaksono & Chariri, 2015)
Frequency of audit committee meetings	ACMEET	The total number of meetings related to supervision with both internal and external parties, and meetings regarding reports or indications of fraud (Astrawan & Achmad, 2023)
Managerial ownership	MNJOWN	Percentage of company shares owned by the board of directors (Girau et al., 2022)
Related party transactions	RPT	Sales to related parties divided by total sales (Ratmono et al., 2020)
Government ownership	GOVOWN	Percentage of company shares owned by the government (Alkhataybeh et al., 2022)
Political connections of the board of directors	POLCON	At least one member of the board of directors or directors has ever held or is currently holding (or is affiliated through family ties) a government position (executive, legislative, or judicial), minister, or political party position, coded 1 and coded 0 otherwise as a dummy variable (Faccio et al., 2006)
Potential for financial statement fraud	FSF	The Beneish M-Score model captures the potential distortion of financial reports that can be caused by manipulation or preconditions that may encourage it to be given a code of 1 and code 0 otherwise as a dummy variable (Beneish, 1999)
Firm size	FSIZE	Scale can be classified based on the size of the company with total assets (Saudicha & Kautsar, 2024)
Firm growth	FGROWTH	Percentage change in company revenue (Dewi & Anisykurlillah, 2021)

The potential for financial statement fraud in this study was measured using the Beneish M-Score model (Beneish, 1999) with eight ratios, namely DSRI (Days Sales Receivable Index), GMI (Gross Margin Index), AQI (Asset Quality Index), SGI (Sales Growth Index), DEPI (Depreciation Index), SGAI (Sales General Administrative Index), LVGI (Leverage Index), TATA (Total Accrual to Total Assets). The complete calculations for each ratio are presented in Table 2. Referring to research by Maccarthy (2017) and Beneish (1999), the Beneish M-Score Model equation is as follows:

M = -4,840 + 0,920DSRI + 0,528GMI + 0,404AQI + 0,892SGI + 0,115DEPI – 0,172SGAI + 4,679 TATA – 0,327LVGI

An M Score greater than -2.22 is an indication that there is financial statement fraud (M Score > -2.22). On the other hand, if the M Score obtained is less than -2.22, there is no indication of financial statement fraud (M Score < -2.22) (Beneish, 1999; Tarjo et al., 2023; Maccarthy, 2017).

Table 2. Beneish M-Score Model Ratio

DSRI	$= \frac{(\text{Accounts receivable}_t : \text{Sale}_t)}{(\text{Accounts receivable}_{t-1} : \text{Sale}_{t-1})}$	*DEPI*	$= \frac{\frac{\text{Depreciation}_{t-1}}{\text{Fixed assets}_{t-1} + \text{Depreciation}_{t-1}}}{\frac{\text{Depreciation}_t}{\text{Fixed assets}_t + \text{Depreciation}_t}}$
GMI	$= \frac{(\text{Gross profit}_{t-1} : \text{Sale}_{t-1})}{(\text{Gross profit}_t : \text{Sale}_t)}$	*SGAI*	$= \frac{\frac{\text{Selling, general, and administrative expenses}_t}{\text{Sale}_t}}{\frac{\text{Selling, general, and administrative expenses}_{t-1}}{\text{Sale}_{t-1}}}$
AQI	$= \frac{1 - \frac{\text{Current assets}_t + \text{Fixed asse}}{\text{Total assets}_t}}{1 - \frac{\text{Current assets}_{t-1} + \text{Fixed asse}}{\text{Total assets}_{t-1}}}$	*LVGI*	$= \frac{\frac{\text{Total liabilities}_t}{\text{Total assets}_t}}{\frac{\text{Total liabilities}_{t-1}}{\text{Total assets}_{t-1}}}$
SGI	$= \frac{\text{Sale}_t}{\text{Sale}_{t-1}}$	*TATA*	$= \frac{\text{Current year profit}_t - \text{Cash flow from operating a}}{\text{Total assets}_t}$

Results and Discussion

Description of Research Sample

This study uses secondary data in the form of annual reports collected from 204 companies in the extractive industry listed on the Indonesia Stock Exchange (2018-2023). Purposive sampling was used based on the criteria presented in Table 3.

Table 3. Research Sample

No.	Criteria	Number of Samples
1.	Companies in the extractive industry listed on the IDX 2018-2023	78
2.	Companies in the extractive industry listed on the IDX after 2018	(28)
3.	Companies in the extractive industry that do not publish their complete 2018-2023 annual reports	(8)
4.	Companies in the extractive industry that do not disclose complete information related to the 2018-2023 research variables	(8)
	Number of company samples	34
	Number of research samples (x 6 years)	204

Source: Processed data (2024)

Statistical Description

A descriptive statistical analysis was conducted using Eviews version 12, and the results are presented in Table 4. It can be seen that the FSF value is 1 (there is potential for financial statement fraud) or 0 (no potential for financial statement fraud) because it uses a dummy variable. The average FSF of all the sample companies from 2018 to 2023 was 0.367647, with a standard deviation of 0.483350.

The BCSIZE variable has a value ranging from 1 to 11, with the lowest value being owned by PT Dana Brata Luhur Tbk. [TEBE] in 2018, and the highest value was owned by PT Baramulti Suksessarana Tbk [BSSR] in 2021. The average of this variable was four, with a standard deviation of 1.770002.

The ACCMEET variable has a value ranging from 0 to 77, with the lowest value being owned by PT Dana Brata Luhur Tbk. [TEBE] in 2018 and 2019, and the highest value was recorded by PT Timah Tbk [TINS] in 2019. The mean value was 10, and the standard deviation was 11.94820.

The MNJOWN variable has a value ranging from 0 to 0.6851, with the highest value held by PT Bayan Resources Tbk [BYAN] in 2023. The mean value was 0.040563 and the standard deviation was 0.127690.

The RPT variable has a value range of 0 to 1.0000, with the highest value held by PT Samindo Resources Tbk [MYOH] in 2020-2022. The mean value was 0.156795 and the standard deviation was 0.263441. The GOVOWN variable has a value range of 0 to 0.650000, with the highest value owned by PT Aneka Tambang Tbk [ANTM] in 2018-2023. The mean value was 0.070341 and the standard deviation was 0.186132.

The POLCON variable has a value of 1 (the board of directors has political connections) or 0 (the board of directors has no political connections), because it uses a dummy variable. The mean value was 0.225490 and the standard deviation was 0.418933.

Table 4. Descriptive Statistics

Variable	Obs.	Mean	Min	Max	Std. Dev.
FSF	204	0.367647	0.000000	1.000000	0.4833507
BCSIZE	204	4.343137	1.000000	11.00000	1.770002
ACMEET	204	10.38235	0.000000	77.00000	11.94820
MNJOWN	204	0.040563	0.000000	0.685100	0.127690
RPT	204	0.156795	0.000000	1.000000	0.263441
GOVOWN	204	0.070341	0.000000	0.650000	0.186132
POLCON	204	0.225490	0.000000	1.000000	0.418933
FSIZE	204	0.021562	0.000100	0.168100	0.030542
FGROWTH	204	0.700571	-0.86730	67.42920	4.949426

Source: Processed data (2024)

Hypothesis Testing

Model accuracy testing

Based on Table 5, the results of testing the coefficient of determination (R2) value show that the McFadden's R^2 value is 0.13107; thus, the number of independent variables that can influence (explain) the FSF variable is only 13.11% and the remaining 86.89% is explained by other variables outside the model. The results of the overall feasibility test of the regression show a Prob (LR statistic) value of 0.000026 (<0.05); therefore, it can be concluded that the independent variables together have an effect on the dependent variable.

Table 5. McFadden R and Likelihood Ratio Test Results

McFadden R-squared	0.130754	Mean dependent var	0.367647
S.D. dependent var	0.483351	S.E. of regression	0.453096
Akaike info criterion	1.231626	Sum squared resid	40.03266
Schwarz criterion	1.378014	Log likelihood	-116.6259
Hannan-Quinn criter.	1.290843	Deviance	233.2517
Restr. deviance	268.3381	Restr. log likelihood	-134.1691
LR statistic	35.08640	Avg. log likelihood	-0.571695
Prob (LR statistic)	0.000026		

Source: Processed data (2024)

Hypothesis testing

Hypothesis testing was used to determine whether the proposed hypothesis was supported based on the results of the logistic regression for each independent variable on the dependent variable. The logistic regression results are presented in Table 6. Based on Table 6, the results of the logistic regression test are as follows:

$$FSF = -1{,}10 + (-0{,}0307)\ BCSIZE + (0{,}0603)\ ACMEET + (3{,}3417)\ MNJOWN + (1{,}3179)\ RPT + (-3{,}8369)\ GOVOWN + (-0{,}8859)\ POLCON + (-4{,}5625)\ FSIZE + (0{,}8901)\ FGROWTH + \varepsilon$$

Based on Table 6, the coefficient value of the size of the board of directors variable (BCSIZE) is -0.0307 with a significance value of 0.7498 (Prob.>0.05). Thus, it can be concluded that the first hypothesis is not supported because the size of the board of directors has no effect on the potential for financial statement fraud.

The coefficient value of the audit committee meeting frequency variable (ACMEET) is 0.0603 with a significance value of 0.0146 (Prob.<0.05). So it can be concluded that the second hypothesis is not supported because the frequency of audit committee meetings has a positive effect on the potential for financial statement fraud.

Table 6. Logistic Regression Results

Logit Regression Results			
Model	Coefficient	Std. Error	Prob.
C	-1.100010	0.466903	0.0185
BCSIZE	-0.030709	0.096312	0.7498
ACMEET	0.060271	0.024671	0.0146
MNJOWN	3.341755	1.332010	0.0121
RPT	1.317965	0.652162	0.433
GOVOWN	-3.836911	1.658309	0.0207
POLCOM	-0.885980	0.444759	0.0464
FSIZE	-4.562516	5.913754	0.4404
FGROWTH	0.890106	0.332102	0.0074

The coefficient value of the managerial ownership variable (MNJOWN) is 1.3179, with a significance value of 0.0121 (Prob.<0.05). So it can be concluded that the third hypothesis is not supported because managerial ownership has a positive effect on the potential for financial statement fraud.

The coefficient value of the related party transaction (RPT) variable was 1.3179, with a significance value of 0.0433 (Prob.<0.05). It can be concluded that the fourth hypothesis is supported because related party transactions have a positive effect on the potential for financial statement fraud.

The coefficient value of the government ownership variable (GOVOWN) is -3.8369, with a significance value of 0.0207 (Prob.<0.05). It can be concluded that the fifth hypothesis is supported because government ownership has a negative effect on the potential for financial statement fraud.

The coefficient value of the political connections variable of the board of directors (POLCON) was -0.8859, with a significance value of 0.0464 (Prob.<0.05). It can be concluded that the sixth hypothesis is not supported because the political connections of the board of directors has a negative effect on the potential for financial statement fraud.

Discussion

Based on the analysis results, the size of the board of directors does not affect the potential for financial statement fraud. This can be interpreted as the number of directors in a company that will not affect the potential for financial statement fraud; therefore, H_1 is not supported. A larger number of directors does not guarantee that the supervisory function will run effectively, and in turn, is expected to prevent financial statement fraud. Companies may believe that too many boards of directors will actually increase costs rather than the benefits they obtain through the effectiveness of internal supervision. The effectiveness of the supervisory role of the board of directors may not be represented by the size (number) of the board of directors, and companies may need to consider other factors, such as independence, duality, expertise, and experience of the board of directors in carrying out the supervisory role. The results of this study are in line with those of research conducted by Mukhibad et al. (2021), who concluded that the size of the board of directors has no effect on financial statement fraud.

The frequency of audit committee meetings has a positive effect on the potential for financial statement fraud; therefore, H_2 is not supported. This can be interpreted as the more often the audit committee holds meetings, the higher is the potential for financial statement fraud. The audit committee is part of the board of directors, which is responsible for managing and following reports of potential violations or fraudulent actions carried out by company management. Audit committee meetings are required to detect financial statement fraud. The high frequency of Audit Committee meetings can also be interpreted as a signal of the high risk of financial statement fraud, which is responded to by the audit committee so that meetings need to follow up on it. As POJK Number 55/POJK.04/2015 concerning the Establishment and Guidelines for the Implementation of the Work of the Audit Committee, Article 10 states that the Audit Committee is tasked with reviewing financial information issued by Issuers or Public Companies to the public and/or authorities, including financial reports, projections, and other reports related to the financial information of Issuers or Public Companies. In addition, the independence and expertise of the audit committee may need to be considered when detecting and preventing fraud, compared to only paying attention to the number of meetings held. The results of this study are in line with those of research conducted by McLaughlin et al. (2021), who concluded that the frequency of audit committee meetings has a positive effect on the potential for financial statement fraud, as indicated by the high number of corporate scandals.

Managerial ownership has a positive effect on the potential for financial statement fraud; therefore, H_3 is not supported. This can be interpreted as meaning that the higher the managerial ownership, the higher the potential for financial statement fraud. Agency conflict arises from managers' tendency to take advantage of company resources. However, the opportunistic nature of agents often encourages them to use their authority to manage company resources for personal gain, and managerial share ownership also increases their desire to continue to increase personal wealth because of the greater opportunity to influence company decisions, including directing fraudulent actions and harming the interests of other principals. Managers who also own company shares may place them in a duality position (agent-principal), thereby reducing the separation of authority in the company when they also become shareholders. This means that the main objective of separating agents and principals has not been achieved. The results of this study are in line with those of research conducted by Abubakar et al. (2020), who concluded that managerial ownership has a positive influence on management's desire to commit financial statement fraud.

Related party transactions have a positive effect on the potential for financial statement fraud, so H_4 is supported. This can be interpreted as meaning that the higher the related party transactions, the higher the potential for financial statement fraud. Transactions between a company and its own managers, directors, principal owners, or affiliates are known as related-party transactions. Related party transactions often contain special rights or conditions that are often misused, for example as a way to transfer or transfer wealth (tunneling) from shareholders for personal interests or benefits, and a means of manipulating financial statements. Thus, the results of this study are consistent with agency theory and the research results of Kabwe (2023) Kabwe's (2023) where companies use related party transactions to manipulate financial statements.

Government ownership has a negative effect on the potential for financial statement fraud, so H_5 is supported. This can be interpreted as meaning that the higher the government ownership, the lower the potential for financial statement fraud. Government ownership is a condition in which the government becomes a part of a company's shareholders. Based on accountability theory, accountability can be achieved through an institutional structure that provides the government with strong access to company supervision. Government ownership of a company's shares allows for more effective supervision of the company and ensures that the company's management runs in accordance with regulations, manages and reports resources accountably and transparently, and maintains a good corporate image by preventing fraud. Thus, the results of this study are in line with the theory of accountability accounting and the results of Liang et al. (2023), who find that government ownership has a negative effect on financial statement fraud. Accountability can be achieved through an institutional structure that makes administrative officials accountable to citizens and provides strong access to the supervision of the company. The political relationship formed between government interests and the corporate sector allows government intervention to exercise control over a company that can affect supervision of management, including how company resources are managed and reported in financial statements.

Politically connected boards have a positive effect on the potential for financial statement fraud; therefore, H_6 is not supported. This can be interpreted as indicating that a politically connected board reduces the potential for financial reporting fraud. A politically connected board can help companies gain easier access to information about how they are managed in accordance with regulations. In addition, these political connections also encourage companies to prevent unethical actions and financial reporting fraud because public and regulatory attention will be greater for companies with political connections. This can be achieved because of the increasing obligation to disclose assets by boards with political positions or related parties with political positions through the State Officials' Wealth Report (LHKPN). Therefore, any change in the wealth owned by the board or their relatives will risk being investigated by regulators and public attention that tarnishes the company's good name if fraudulent actions are found. Thus, the company will use the advantages of a politically connected board for ethical interests and compliance with regulations, rather than unethical actions. The results of this study are in line with the results of research conducted by Ashafoke and Aderin (2023), who concluded that political connections of directors have a negative effect on the potential for financial reporting fraud. Researchers realize that changes in the wealth of the board or their relatives who have political connections in the LHKPN indicate only the risk of fraud inherent in it. Fraud will be difficult to identify if directors or their relatives who have political connections act as mediators of fraudulent actions that do not directly affect their wealth in the LHKPN, or involve more complex fraud. Further research should also consider these factors.

This study uses company size and growth as the control variables. The results of the analysis show that company size does not affect the potential for financial statement fraud, while company growth has a positive effect on the potential for financial statement fraud. The higher the company growth, the greater the potential for financial statement fraud. This can happen because companies in the extractive industry pursue maximum profit; for example, natural resource exploration during the period of the management rights held, which means that the company has a greater chance of recognizing exploration results that do not match the actual value and time of acquisition.

Conclusion

This study analyzes the influence of corporate governance proxied by board director size, frequency of audit committee meetings, managerial ownership, related party transactions, and political connections proxied by government ownership and politically connected boards on the potential for financial statement fraud in extractive industry companies listed on the IDX for the period 2018-2023. Based on the results of the hypothesis test, it can be concluded that corporate governance, proxied by the frequency of audit committee meetings, managerial ownership, and related party transactions, has a positive effect on the potential for financial statement fraud, while the size of the board of directors has no effect. Political connections proxied by government ownership and politically connected boards negatively affect the potential for financial statement fraud. The addition of control variables, namely firm growth, has a positive effect on the potential for financial statement fraud, whereas firm size has no effect. These results provide another perspective related to agency theory and positive accounting theory, but strengthen accountability theory in relation to corporate governance and political connections to financial reporting fraud. In addition, the practical implications of the results of this study will help provide alternative applications of these theories, for example, political connections used to fulfill regulations on the preparation of financial reports and not to commit financial report fraud. Regulators and auditors should consider monitoring not only compliance with financial reporting requirements but also how those financial reports are prepared and presented beyond what has been shown.

The results of this study are expected to provide the latest perspectives and evaluation references to companies regarding their potential for financial statement fraud. This study adds information and empirical evidence to companies and regulators that the potential for financial statement fraud, especially in extractive companies in Indonesia, can be seen from corporate governance and political connections. However, this study has limitations, namely that many companies do not display annual reports on the IDX, so some companies cannot be used. Additionally, this study uses the perspective of political connections that can be identified in public information disclosure. Suggestions for further research include in-depth exploration with different research methods, such as adding interviews related to company political connections. In-depth interviews with government officials related to extractive industry regulations and company executives may provide new perspectives on future research and their impact on fraud detection.

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