

CHAPTER I

INTRODUCTION

1.1 Background

In Indonesia, companies have an obligation to issue the audited financial reports that regulated on Financial Services Authority Circular (*Surat Edaran OJK*) No.16 (2021) that relating 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 ends. 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, fraudulent still happen on the financial reporting in Indonesia. Because of the inspiration and support from numerous sources, both inside and outside the company, fraud, especially on financial statements, happens. Managers try several strategies to display strong financial statements because they want to make sure 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).

The theory of fraud is used extensively to explain management's actions and motivations in the report finance. The challenges management faces in its role as an agent for investors (principals), such as pressure to improve performance or promote the company's value on the stock exchange, also serve as an explanation or justification for management's misrepresentation of financial statements (Chrisman, 2019). Additionally, it is risky to identify or detect fraud if there is a chance (opportunity) to do so. The doorway for fraud will be opportunity, while pressure and justification will persuade management to conduct

fraud(Ozcelik,2020). However, committing fraud involving sophisticated methods and substantial sums of money is impossible without employees with the necessary skills. To put it another way, the fraudster must be able to influence internal controls, maintain situational control, and come up with a strategy to conceal his fraud. The offender believes that internal control does not apply to them since they are in a position that gives them a sense of superiority and arrogance, pa

If the fraudulent financial reporting is not discovered quickly, it could develop into a significant scandal that would be more harmful to numerous parties. According to a study by the Association of Certified Fraud Examiners, 83% of fraud cases are committed by the company's owner or board of directors. Ernst & Young (2009) also found that more than half of the fraudsters were from management. Enron and other significant accounting disasters have demonstrated the serious impact that misleading financial reporting has on a nation's economy and have taught the accounting and finance fields many valuable lessons. 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).

Based on fact above, writers wish to further examine whether the gender CEO and expertise, and political connection will affect of the fraudulent financial reporting. In conclusion, writers have chosen the title of “the effect of pluralism gender on board, financial expertise of chief executive officer, and political connection towards fraudulent financial reporting in indonesia.” The studies will used Ordinary Least Square (OLS) by regressing the data. The counties in Indonesia that are listed in IDX and S&P Capital IQ for the period of 2018–2021 consider up the population used in this analysis with 100 industrial companies were specifically picked whose annual reports were made public and who disclosed their external auditors. The multiple regression method is employed in this study's STATA 17 to test the data.

1.2 Research Problem

Given based on the background, its recognized that many fraudulent cases that appear in Indonesia due to the CEO and director, role as gender and expertise, and political connection. Stated the gender CEO and expertise, and political connection, has impact on fraudulent financial reporting in Indonesia.

To obtain expected goal, writer outline studies issues as follow:

1. Does gender CEO and expertise have an effect on fraudulent in financial reporting?
2. Does political connection have an effect on financial reporting fraud?

1.3 Research Objective

In order to accomplishing the study objective, the problem statement will be the fundamental for writer holds in. There is the study objective as follow:

1. Determine gender CEO and expertise has effect on fraudulent in financial reporting.
2. Prove political connection will effect on fraudulent in financial reporting.

1.4 Significant of the Study

1. Author

There is a hope that my study could provide more further information about the issue and problem that being discuss, and could be applicable through class on the university learning procedure.

2. Universitas Pelita Harapan

With hope, the study end result could also provide further relatively application of the theories that had been taught by refine of studying, as well as further

review of extent material for obtain knowledge by learning process in the class. Furthermore, with hope that this study could be an appropriate added literature collection on Johannes Oentoro Library.

3. Next researchers

Optimistically, the outcome of this study was capable to convey extended knowledge and information toward upcoming research and studies relevant to fraudulent financial reporting. Specially with gender on board, financial expertise, and political connection as the variable.

4. Literature reference

Hopefully, the end outcome of this study capable to generate a great improvement of literature, studies or research especially toward topic of fraudulent financials statement reporting in Indonesia. Primarily topics related to effect from managerial ability, gender on board, financial expertise, and political connection. Furthermore, this research and study could make a contribution for further consideration to establish a regulation by government toward fraudulent financial statement.

5. Stakeholders

By this study hopefully will be helpful for process of decision making and could make a contribution to concerning problem and framework especially management ability and corporate governance topics. Furthermore, with a hope, this study provides another perspective and consideration for investor in investment decision making.

1.5 Scope of Study

This research resolves gender chief executive officer, financial expertise, political connection on fraudulent financial reporting. The financial statement, gender on board, financial expertise, and political connection will be collected from 2018, 2019, 2020, and 2021 from public industrial sector in Indonesia. Writer will

sufficiently research on how gender chief executive officer, financial expertise, and political connection able to effect of fraudulent financial reporting.

1.6 Systematic Discussion

The research paper is separated into 5 (five) chapters in the following sequence.

CHAPTER I INTRODUCTION

The chapter will be divided into subchapters as well as paper background, problem of the research, objectives, significant of the study, the limitation and the systematic discussion.

CHAPTER II THEORITICAL FRAMWORK AND HYPOTHESIS DEVELOPMENT

Theoretical framework, relevant literature reviews, past studies, conceptual framework as well as hypothesis development of the studies will be discussed in this chapter.

CHAPTER III METHODOLOGY

The methodology will be explained further in this chapter as well as which and what method will be used. This will cover the sample and population of the study, empirical model of the study, definition of basic variable and the data analysis method.

CHAPTER IV RESULT AND DISCUSSION

The result and empirical finding on the study will be point out in this chapter which relate to gender chief executive officer, financial expertise, and political connection on financial reporting in Indonesia.

CHAPTER V CONCLUSION

The conclusion and suggestion will be covered in this chapter alongside with the result, discussion and recommendation for the study and problem that already covered in previous chapter.

