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Board Of Commissioners Characteristics And Financial Statement Fraud In Indonesian Soes

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ABSTRACT

This research aims to analyze the influence of the size of the board of Commissioners, the gender diversity of the board of Commissioners, the financial competence of the board of Commissioners, and the political connections of the board of Commissioners on fraudulent financial reports in non-financial SOEs listed on the Indonesia Stock Exchange for the 2018-2023 period. The observation data in this study were 120 observations. The analysis tool uses logistic regression. The results of this study show that board size and gender diversity have a negative effect on financial statement fraud. Financial competence does not have a negative effect, and political connections do not positively affect fraud involving financial statements.

INTRODUCTION

Financial reporting fraud is an intentional act by a company that causes errors or omissions in material information in the financial statements (ACFE, 2024). The results of a survey conducted by ACFE Indonesia in 2019, the institution that was most harmed by fraud was the government, with a percentage of 48.5%; BUMN was in second place with a percentage of losses of 31.8%, followed by private companies at 15.1%, non-profit organizations at 2.9%, and other institutions at 1.7%. The survey results show that fraud harms various institutions in Indonesia, with the government and State-Owned Enterprises (BUMN) being the most affected institutions (ACFE, 2019).

Cases of financial reporting fraud that occurred in Indonesia, especially in State-Owned Enterprises (BUMN), such as the case of PT Garuda Indonesia, PT Asuransi Jiwasraya, the case of PT Waskita Karya, and most recently in the case of PT Indofarma, which is currently being investigated by the BPK (liputan6.com, 2024). Several recent cases show that more and more BUMN are involved in various forms of fraud, both financial reporting manipulation and corruption. Of course, this cannot be separated from the involvement of management in it (Rusmana & Tanjung, 2019).

Several recent cases have shown that more and more BUMNs are involved in various forms of fraud, including financial report manipulation and corruption. Of course, this cannot be separated from the involvement of management in it (Rusmana & Tanjung, 2019). The increasingly rampant financial report fraud can harm various parties and have a negative impact on the company itself. Fraud can occur because of differences in interests between stakeholders who expect the company's performance to continue to improve while management wants a large reward for managing the company's activities. This situation aligns with the agency theory put forward by Jensen and Meckling (1976), which states that there are differences in interests between management and shareholders. Management as an agent has more comprehensive access to information about the company's internal conditions than the principal, allowing the agent to hide information from the principal and encourage fraud. In Indonesia, agency conflicts occur more often between majority and minority shareholders, not just management and owners. Most shareholders, such as families or the government, have significant control over the company and greater access to information. This creates information asymmetry, where the majority's interests are not always in line with the minority's. The risk of financial reporting fraud increases because majority shareholders can exploit their positions for personal gain, while oversight of their actions is often less effective.

Robust corporate governance mechanisms can mitigate corporate fraud, according to empirical evidence. According to Nasir et al. (2019) and Girau et al. (2022), the Implementation of Good Corporate Governance (GCG) can have a positive impact on companies in reducing the risk of financial statement fraud. In the context of corporate governance theory, the characteristics of the board of commissioners play an essential role in influencing the behavior of the board of directors and top management, which ultimately impacts the company's overall performance. The existence of strong and independent characteristics of the board of commissioners can improve corporate supervision and minimize the potential for abuse of authority by certain parties, thereby reducing the risk of financial statement fraud (Kaituko et al., 2023).

Several studies have examined the impact of board characteristics that can improve the effectiveness of supervision. These studies focus on how specific characteristics of the board can affect their ability to perform their supervisory function more optimally, thereby minimizing the risk of fraud in the company's financial reporting, such as the size of the board of commissioners (Liao et al., 2019; Luo et al., 2020; Kaituko et al., 2023; Ebaid, 2023; Ibrahim & Yahaya, 2024), gender diversity of the board of commissioners (Liao et al., 2019; Luo et al., 2020; Ud Din et al., 2021; Wahyuningtyas & Aisyaturrahmi, 2022; Wang et al., 2022; Yami & Poletti-Hughes, 2022; Kaituko et al., 2023), financial competence of the board of commissioners (Wahyuningtyas & Aisyaturrahmi, 2022; Kaituko et al., 2023),

Previous studies have found that board size has a significant adverse effect on the likelihood of financial statement fraud (Liao et al., 2019; Luo et al., 2020; Kaituko et al., 2023; Ebaid, 2023; Ibrahim & Yahaya, 2024). However, the results of Razali & Arshad's (2014) study reported no effect on the size of the board of commissioners and the effectiveness of its supervisory role. The survey by Wahyuningtyas and Aisyaturrahmi (2022) and Kaituko et al. (2023) found that the financial competence of the board of commissioners had a significant adverse effect on financial statement fraud.

Several studies have shown the significant impact of gender diversity and female representation on corporate boards in reducing financial reporting fraud (Wahyuningtyas & Aisyaturrahmi, 2022; Wang et al., 2022; Ebaid, 2023; Kaituko et al., 2023; Ibrahim & Yahaya, 2024). However, research conducted by Fitroni and Feliana (2022) showed that gender diversity on the board had no effect in reducing the likelihood of financial reporting fraud.

Previous research on the influence of political connections on financial reporting fraud. Wang et al. (2017) and Ahmad et al. (2022) revealed that companies with political connections tend to reduce the risk of management being involved in financial reporting fraud. The existence of political connections owned by the company can act as an additional monitoring mechanism that makes it difficult for management to manipulate or cheat in financial reporting. Conversely, the results of the study by Höglund & Sundvik (2016) show that companies with political connections tend to misuse these political connections to resolve information asymmetry in financial reports through connections, so the reports have low quality, which will have an impact on increasing the possibility of financial reporting fraud.

The previous studies have shown varying results related to the relationship between the characteristics of the board of commissioners and financial statement fraud. Therefore, this study adds a political connection variable that is very closely related to the board of commissioners, considering that the object of this study is a BUMN that has ties to the government. This study analyzes the interaction between corporate governance and the political-economic environment of BUMN, an aspect that has previously been under-explored. The results of this study have the potential to provide broader policy implications for improving BUMN governance and regulation. Another difference from this study is that the object is BUMN, while previous studies generally examined private companies and other sectors. The purpose of this study is precisely to investigate the influence of the characteristics of the Board of Commissioners (Board of Commissioners size, gender diversity of the Board of Commissioners, financial competence of the Board of Commissioners, political connections of the Board of Commissioners) on financial statement fraud in BUMN companies.

This study contributes to the limited literature on the governance and financial management of SOEs. Thus, the study presents a new perspective on understanding the relationship between the characteristics of the board of commissioners, especially political connections, and the potential for financial reporting fraud in the specific context of SOEs.

LITERATURE REVIEW

Agency theory explains the potential conflict of interest between owners (principals) and management (agents) (Jensen & Meckling, 1976). The board of commissioners acts as a monitoring mechanism, so management acts in the owners' interests. The size of the board of commissioners refers to the total number of board members in a company. Board size has implications for decision-making, oversight, and the effectiveness of corporate governance (Kaituko et al., 2023). A larger board size increases the effectiveness of this oversight function, thereby reducing the chances of management committing financial reporting fraud for their interests (Ebaid, 2023). Thus, the larger the size of the board of commissioners, the less likely financial reporting fraud is to occur.

Empirical evidence finds that larger board sizes can reduce the likelihood of financial reporting fraud.(Liao et al., 2019; Luo et al., 2020; Ebaid, 2023; Kaituko et al., 2023; Ibrahim & Yahaya, 2024). Based on the explanation above, the following hypothesis is formulated:
H1: The size of the board of commissioners has a negative effect on the tendency to fraudulent financial statements.

Gender role theory assumes that men and women tend to have different traits and behaviors due to socialization factors and role expectations in society. In an organizational context, women are associated with being risk-averse and more cautious in decision-making than men. This cautious nature is assumed to make female board members more reluctant to engage in high-risk financial reporting fraud (Luo et al., 2020).

Gender diversity in the workforce is essential because of the differences in characteristics between women and men. Women tend to have greater sensitivity to interpersonal relationships, higher levels of cooperation, and lower tendencies to take risks than men. These differences in characteristics can affect the dynamics and effectiveness of work in an organization or company, so gender diversity in the composition of the workforce is essential to pay attention to (Ibrahim & Yahaya, 2024).

Several studies have shown the significant impact of such representation in reducing fraud in financial reporting (Wahyuningtyas & Aisyaturrahmi, 2022; Ebaid, 2023; Kaituko et al., 2023;

Ibrahim & Yahaya, 2024). Based on the explanation above, the following hypothesis is formulated:
H2: Gender diversity of the board of commissioners has a negative effect on the tendency of financial statement fraud.

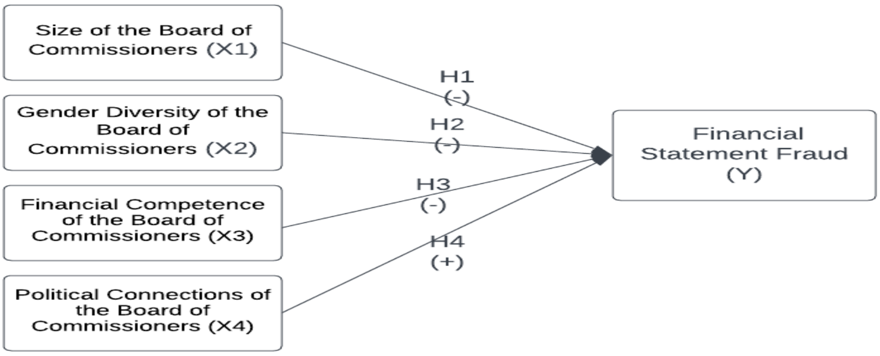
Agency Theory explains there is a potential conflict of interest between the owner (principal) and management (agent) due to differences in goals (Jensen & Meckling, 1976). Management may manipulate financial statements to show better performance, achieve personal incentives, or maintain its position. Therefore, better supervision from the board of commissioners is needed. The presence of members of the Board of Commissioners who have financial competence can increase the effectiveness of supervising the company's financial statements. Financial competence includes understanding accounting, financial reporting, auditing, and risk analysis (Wahyuningtyas & Aisyaturrahmi, 2022). With this expertise, board members can critically assess financial statements, identify anomalies, and detect any irregularities or fraudulent practices by management.

According to Kaituko et al . (2023), a board of directors with members with high financial competence can understand financial complexity, making them more capable of detecting manipulative actions and reporting deviations accurately. The study by Kaituko et al. (2023) and Wahyuningtyas & Aisyaturrahmi (2022) found that the financial competence of the board of commissioners has a significant influence in reducing financial reporting fraud. Therefore, the following hypothesis is formulated:
H3: The financial competence of the board of commissioners has a negative effect on the tendency of financial fraud.

According to Agency Theory, the presence of political connections in the board of commissioners can create a more significant conflict of interest between the owner (principal) and management (agent) (Jensen & Meckling, 1976). Board members with political connections may use their positions to gain personal gain or protect management from strict supervision. As a result, they tend to be less critical in overseeing the company's financial statements and are more susceptible to tolerating fraudulent practices. Political connections of the Board of Commissioners refer to the relationship or relationship between members of the Board of Commissioners and parties with political power, such as government officials or political parties. These political connections, including financial reporting, can influence the company's decisions and actions (Kim & Lee, 2023).

The results of Höglund & Sundvik's (2016) research show that companies with political connections tend to misuse these political connections to resolve information asymmetry in financial reports through connections, so the reports have low quality, which will have an impact on increasing the possibility of financial report fraud. Therefore, the following hypothesis is formulated:
H4: Political connections of the board of commissioners positively affect the tendency of financial report fraud.

Figure 1. Conceptual Framework



Source: Research Data (2024)

METHODS

The population of this study is state-owned companies listed on the Indonesia Stock Exchange (IDX) for the period 2018-2023. This research uses a quantitative approach with logistic regression analysis. The data analysis was performed using SPSS version 25. The technique used for sampling in this study is the saturated sampling technique (census).

Table 1. Sample Determination

No	Criteria	Number of Companies
1.	Total number of state-owned companies listed on the IDX (2018-2023)	27
2.	Reduced: State-owned companies in the financial sector	(7)
	Number of sample companies	**20**
	Total data of 20 companies x 6 years (period 2018-2023) = 120	**120**

Source: Research Data (2024)

The dependent variable in this study is financial reporting fraud. In contrast, the independent variables in this study are the size of the board of commissioners, gender diversity of the board of commissioners, financial competence of the board of commissioners, and political connections of the board of commissioners.

Table 2. Operational Definition and Measurement of Variables

Variables	Operational Definition	Measurement
Dependent variable:		
Financial Reporting Fraud	Acts of manipulation, material misstatement, or intentional omission in a company's financial statements (ACFE, 2024)	Beneish M-Score, values equal to or less than -2.22 are given a score of "0," and values greater than -2.22 are given a score of "1" (Beneish, 1999). M-Score = -4.84 + 0.92*DSRI + 0.528*GMI + 0.404*AQI + 0.892*SGI + 0.115*DEPI - 0.172*SGAI + 4.679*TATA - 0.327*LVGI Information: DSRI = *Days Sales in Receivables*

		Index GMI = *Gross Margin Index* AQI = *Asset Quality Index* SGI = *Sales Growth Index* DEPI = *Depreciation Index* SGAI = *Sales, General, and Administrative Expenses Index* TATA = *Total Accruals to Total Assets* LVGI = *Leverage Index*
Independent variables:		
Size of the Board of Commissioners	The total number of members of the board of commissioners in a company.	Total number of board of commissioners (Ibrahim & Yahaya, 2024).
Gender Diversity of the Board of Commissioners	The existence of female *gender* in the company's board of commissioners.	The proportion of gender diversity in the Board of Commissioners, namely the number of female Board of Commissioners divided by the total Board of Commissioners (Liao *et al* ., 2019)
Financial competence of the Board of Commissioners	The proportion of board of commissioner members who have financial competence (bachelor/master/doctorate in finance/economics, or have certification in finance (Kaituko *et al* ., 2023).	The number of Board of Commissioners with financial competence is divided by the total number of Board of Commissioners members (Kaituko *et al* ., 2023).
Political Connections	The proportion of the board of commissioners who also serve or have served as members of the executive cabinet, members of the DPR, or officials in one of the government institutions, including the military, police, or members of political parties.	The number of politically connected boards of commissioners is divided by the total number of boards of commissioners (Kim & Lee, 2023)

Source: various sources, 2024

RESULTS

Table 3. Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	DK Size	.907	1.102
	Gender Diversity DK	.963	1,038
	DK Financial Competence	.915	1,093
	DK Political Connections	.858	1.165

Source: Data Processed, 2024

Based on table 3 shows that there are no symptoms of multicollinearity in the regression because the Tolerance value of each variable is more significant than 0.10, and the VIF value of each variable shows results less than 10. Therefore, the regression model used is good because there is no relationship or correlation between independent variables (Ghozali, 2018).

The Hosmer and Lemeshow Test value shows a Sig. The value of 0.875 is more significant than 0.05; thus, it can be stated that the tested model is fit. In other words, there is no significant difference between the observed value and the value predicted by the model, which means that the model is considered feasible by the data (Ghazali, 2018).

The Omnibus Test of Model Coefficients results show a Chi-square value of 11.559, indicating how far the model with the independent variables differs from the model without independent variables and a Sig. A value of 0.021, which is smaller than 0.05, indicates that the regression model is significantly better at predicting the dependent variable than the empty (null) model (Ghozali, 2018).

The results of the Nagelkerke's R Square and Cox and Snell's R Square tests show a Nagelkerke's R Square value 0.123. It can be concluded that the ability of the independent variable to explain the variance of financial statement fraud as a dependent variable is 12.3%, and the remaining 87.7% is explained by other factors. *by other factors.*

Table 4. 2x2 Classification Table

			Predicted		
			LK Fraud		Percentage Correct
	Observed		Do not commit financial reporting fraud.	Committing financial report fraud	
Step 1	LK Fraud	Do not commit financial reporting fraud	26	29	47.3
		Committing financial report fraud	17	48	73.8
	Overall Percentage				61.7

Source: Data Processed, 2024

Table 4 shows the model's accuracy in predicting is 61.7.

	N	Minimum	Maximum	Mean	Std. Deviation	Mode
DK Size	120	3	10	5.53	1,365	6
Gender Diversity DK	120	.00	.33	.0742	.10224	.00
DK Financial Competence	120	.00	1.00	.2611	.20338	.00
DK Political Connections	120	.00	1.00	.6745	.22754	1.00
Valid N (listwise)	120					

Source: Data Processed, 2024

Table 5 shows the variable size of the board of commissioners in companies with a minimum and maximum of 10. The average board size is 5.53 (mode 6). The standard deviation of 1.365 reflects a slight variation among companies regarding the number of board members.

The gender diversity variable shows the proportion of women on the board of commissioners. The minimum value is 0.00, and the maximum value is 0.33. The average gender diversity is around 0.0742, with a mode of 0.00. This shows that most companies in the sample do not have female representation on the board of commissioners. The financial competence variable of the board of commissioners shows the proportion of board members who have financial competence. With an average of 0.2611, the data shows that only about one-fifth of the board of commissioners in the sample companies have members with financial competence. The reasonably significant variation (from 0 to 1) shows that some companies need board members with financial competence.

In contrast, some companies have 100% board members with financial competence. A mode value 0 indicates that most companies need board members with financial competence. The political connections variable of the board of commissioners shows the proportion of board members who have political connections, with an average of 0.6745. A mode value of 1.00 indicates that most companies in the sample have at least one board member with political connections.

Table 5. Hypothesis Testing Results

		B	Sig.	Information
Step 1 [a]	DK Size	-.362	.025	Hypothesis accepted
	Gender Diversity DK	-4.639	.018	Hypothesis accepted
	DK Financial Competence	-.639	.518	Hypothesis rejected
	DK Political Connections	1.132	.223	Hypothesis rejected
	Constant	1.919	.065	

Source: Data Processed, 2024

Based on Table 8, the logistic regression equation is as follows:

$$Ln\ \frac{Fraud}{1-Fraud} = 1.919 - 0.362\text{DK Size} - 4.639\text{ DK Gender Diversity} - 0.639\text{ DK Financial Competence}$$

$$+ 1.132\text{ DK Political Connections}$$

DISCUSSION

Table 5 shows that the variable Board of Commissioners Size (BoC Size) has a regression coefficient of -0.362 with a significance value of 0.025. This significance value is smaller than 0.05, which means that the Board of Commissioners Size have a negative effect on financial statement fraud. Thus, hypothesis 1 is accepted. The negative coefficient indicates that the larger the board of commissioners, the smaller the likelihood of financial reporting fraud. This explanation is consistent with Agency Theory, which states that a giant board of commissioners can perform a better supervisory function.

In Agency Theory, the board of commissioners acts as a party representing shareholders to oversee management performance. The larger the board, the more effective management supervision is due to the diversification of perspectives and increased control. A giant board is also more likely to minimize the risk of fraud because many members are involved in the decision-making process. Hence, the risk of errors or manipulation is negligible (Ebaid, 2023).

The results of this study are also consistent with previous studies conducted by Liao et al. (2019), Luo et al. (2020), Kaituko et al. (2023), and Ibrahim & Yahaya (2024). However, the results of this study contradict the results of the survey by Razali & Arshad (2014), which stated that there was no significant effect between the size of the board of commissioners and the effectiveness of its supervisory role.

Gender Diversity of the Board of Commissioners has a regression coefficient of -4.639 with a significance value of 0.018, more diminutive than 0.05. This indicates that gender diversity on the board of commissioners significantly negatively affects financial statement fraud. Thus, hypothesis 2 is accepted. In other words, the higher the gender diversity on the board, the less likely the company is to commit financial statement fraud, or vice versa.

This explanation is by the Gender Role Theory, which states that women tend to have higher ethical sensitivity and greater caution than men. The presence of women in the BOC can improve the quality of supervision, reduce the risk of fraud, and encourage more ethical decision-making. In other words, women in supervisory positions are often considered more thorough in detecting potential violations. So that the presence of women on the board can reduce the risk of fraud (Luo et al., 2020). The results of this study are also consistent with previous studies conducted by Ibrahim & Yahaya (2024), Ebaid (2023), Kaituko et al. (2023), Wahyuningtyas & Aisyaturrahmi (2022). On the other hand, this study contradicts the study conducted by Fitroni and Feliana (2022), which showed that gender diversity on the board had no adverse effect on financial statement fraud.

Table 8 shows that the Financial Competence of the Board of Commissioners (Financial Competence of the Board of Commissioners) has a regression coefficient of -0.639 with a significance value of 0.518, more significant than 0.05. This means that the financial competence of the board of commissioners does not significantly affect financial reporting fraud. Thus, hypothesis 3 is rejected. In theory, a board with financial competence is expected to be better able to detect financial manipulation practices because they understand financial reports better and know how the reports should be prepared, which means that a board with high financial competence should be better able to detect financial manipulation (Kaituko et al., 2023). However, in practice, other more dominant factors, such as more complex corporate governance mechanisms or management strengths, may need to be clarified or overcome the individual competence of the board. Therefore, these results indicate that financial competence alone is not strong enough to prevent fraud. The results of this study contradict the results of research conducted by Wahyuningtyas & Aisyaturrahmi (2022) and Kaituko et al. (2023), which found that the financial competence of the board of commissioners has a significant effect on reducing financial reporting fraud.

The results in Table 8 show that the variable Political Connection of the Board of Commissioners (DK et al.) has a regression coefficient of 1.132 with a significance value of 0.223, more significant than 0.05. This means that the political connection of the board of commissioners does not affect fraud in financial reporting, and hypothesis 4 is rejected. Although agency theory states that political connections can increase the risk of conflict of interest and the potential tolerance for fraudulent practices (Höglund & Sundvik, 2016), the results of this study do not support this assumption. One reason may be that political connections are not always used for personal gain and can be influenced by stricter policies in supervision. Political connections can be used for other more positive interests, such as increasing business networks or facilitating access to resources, and do not always lead to practices that violate the rules. In addition, stricter supervisory policies or good internal controls can reduce the risk of fraud even though there are political connections Ahmad et al. (2022). This shows that political connections are not a dominant factor in influencing the possibility of fraud in the financial reporting industry. The results of this study contradict the research conducted by Höglund & Sundvik (2016), showing that political connections have a significant positive effect on financial reporting fraud, where companies that have political connections tend to misuse these political connections to resolve information asymmetry in financial reports through connections so that the reports have a low quality which will have an impact on increasing the possibility of financial reporting fraud.

CONCLUSION

This study concludes that the Size of the Board of Commissioners and the Gender Diversity of the Board of Commissioners have a negative effect on financial statement fraud. This shows that the larger the board of commissioners and the more diverse the gender composition of the board, the less likely financial reporting fraud. On the other hand, the Financial Competence and Political Connection of the Board of Commissioners did not show a significant influence on financial statement fraud, meaning that these factors may not affect fraudulent practices in the Indonesian BUMN environment.

SUGGESTION

The main limitation of this study is the limited number of samples of BUMN listed on the IDX; this study only has 20 companies or 120 observation data from 2018-2023. This makes the number of samples relatively small because it must exclude the financial sector with different characteristics. To improve data representation, future research is advised to extend the observation period so that more annual data is obtained or consider examining non-BUMN companies in relevant sectors. This step is expected to produce more accurate and generalizable findings in preventing financial reporting fraud in Indonesia.

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