CHAPTER II

LITERATURE REVIEW

2.1 Agency Theory

Agency theory is a theory that explains where there is a relationship between one or more parties (principals) and other party (agents) in a contract to do what the principal ordered and authorize the agent to carry out the order to provide the best results for the principal (Jensen & Meckling, 1976). Researcher use agency theory is used as an explanation of the relationship between the principal and the agent which the principal is the shareholder and the agent is the management. Principal is assumed as a party who wants to increase the company's financial performance in the form of high returns on investments that have been issued by the company. Meanwhile, the agent has its own interest, namely to get higher compensation and salary as the results of its performance. This shows that there is a difference of interest between the principal (shareholders) and the agent (manager) which commonly known as conflict of interest.

According to Devita (2021) principals as shareholders have access and want to know information related to their company, while agents are the parties involved in the company's operational activities and know information related to the company's overall operations and performance. The agent has more information than the principal. This relationship can cause information imbalance or often referred as information asymmetry (condition where management has more information that is not known to shareholders). With the information asymmetry situation between these two parties, it will create opportunity for agent (managers) to hide some information that is not known by the principal (shareholders) for a specific purpose.

This situation will create a conflict of interest, where management will act for its personal interests and not maximize the interests of shareholders. Management will act in its own interests without thinking about the interests of the principal. This will arouse several traits that lead to fraudulent act. One of the ways that can be done by management is to falsify financial statements in order to show their best performance, this can be done by falsifying figures in financial statements, hiding information that actually occurs and doing misstatements that can mislead users of financial statements.

2.2 Fraud

Generally, fraud is a deceptive act carried out for personal gain and causes disadvantage to others. According to Johnstone et al. in Oktavia (2017) states that fraud is an intentional activity that contains deceptive acts by certain parties that cause misstatements in financial statements. Meanwhile, Albrecht et al. (2016) explain fraud as an action done by a person to obtain benefits from other individuals by presenting statements that are not true in devious ways. Fraud is different from error. Error occurs by accident, meanwhile fraud occurs because there is a factor of intention with the purpose of gaining advantage over others through untrue statements (Albrecht et al., 2016). Some of the purposes of fraud committed by individuals and organizations are to get money, wealth or services; to avoid payment or loss of services; or to secure a personal business advantage. From these definitions, it can be inferred that fraud is a deceptive activity carried out by individuals or groups for personal gain which will disadvantage other parties, such as shareholders, creditors and investors.

According to ACFE Indonesia (2020), mentions that there are three main categories of fraud, namely:

1. Fraudulent Financial Statement

   Fraudulent Financial Statement is an action done by officials or executives of a company to cover up the actual financial conditions and performances by manipulating financial statements. This action is usually done by presenting the balance in the financial statements lower (understatement) or higher (overstatement) than the actual balance.

2. Asset Misappropriation

   Asset Misappropriation is an act of theft or use of company assets whose benefits are enjoyed by individuals or certain groups, and is usually carried out by people who are trusted to manage the assets of an organization.

Misappropriation of assets usually causes material losses to the company (Antarwiyati & Purnomo, 2017).

3. Corruption

   Corruption is an act that violates the public interest for personal gain. Corruption is the most difficult type of fraud to expose because it involves cooperation with other parties. Corruption is also the most common type of fraud in developing countries which have weak law enforcement and lack of attention of good governance. In Indonesia itself, corruption is the most common act of fraud with losses of more than Rp. 10 billion (ACFE Indonesia, 2020).

2.3 Financial Statement

2.3.1 Definition of Financial Statement

One of the tools used to determine the company financial condition is the financial statement. In accordance with the definition of PSAK No. 1 of 2019 in Leo Handoko (2021), financial statements can be interpreted as a presentation of financial information that includes the financial position and financial performance of a company that tries to convey the users of financial statements about the information that is important and useful for making decisions. More specifically, according to Financial Accounting Standards or PSAK No.1 published by Ikatan Akuntansi Indonesia (IAI) (2004), financial statements are periodic statements prepared according to generally accepted accounting principles regarding the financial status of business entities, consisting of statement of financial position, income statement, statement of changes in equity, statement of cash flows and notes to financial statements. Munawir (2004), also argues that financial statements are basically the final result of an accounting process that can be used as a communication tool between financial data or the activities of a company and parties who have an interest in the company's financial condition and results of company’s operations. From this explanation, it can be seen that the financial statements serve as a communication tool between company and other related parties regarding the financial condition and performance of the company.

Financial statements also serve as a tool used by external parties to examine and assess the company’s financial condition and performance.

2.3.2 Purpose of Financial Statements

According to the Indonesian Institute of Accountants (IAI, 2018) the objectives of financial statements are:

a. Present information about the entity's financial position, financial performance, and cash flows that is useful to most users of financial statements in making economic decisions.
b. The financial statements also shown what has been done by management or as a form of management's responsibility for the resources entrusted to the company. This information is used by users to assess what management has achieved, so that can make decisions may include decisions to reappoint or replace the company’s management.

Moreover, financial statements are also provide the most important information needed in assessing the development of the company, it can also be used to assess the achievements of the company in the past, present and the company’s plans in the future (Maith, 2013).

2.4 Fraudulent Financial Statement

Regarding agency theory, financial statements are used as a management (agent) accountability reports to shareholders (principals) for their performance in managing the company. However, the existence of information gaps and conflicts of interest in agency theory relationships can motivate management to manipulate financial statements to fulfil their interests. ACFE defines fraudulent financial statement as a fraudulent act committed by management by making material misstatements in the financial statements. According to Apriliana & Agustina (2017) fraudulent financial statement is a fraudulent act in the form of a material misstatement in the financial statement that is carried out by company management intentionally so that it will disadvantage users of financial statements.

Furthermore, fraudulent financial statement is carried out for several reasons such as to increase investment, showing that company able to obtain a high profit, covering the company's inability to generate good operational cash flows, to cover misuse or embezzlement of company assets and/or funds, to eliminate negative public perceptions to the company or to maintain the company reputation and to obtain financing. According to AS 2401, fraudulent financial statement is an intentional misstatement or omission of amounts or disclosures contained in financial statements with the aim of misleading users of financial statements, where this causes the financial statements to not be presented in accordance with Generally Accepted Accounting Principles (GAAP). Fraud in financial statements can involve actions such as:

a. Manipulating, falsifying or altering the accounting records or supporting documents needed to prepare financial statements.
b. Intentional negligence or misrepresentation in the financial statements of events, transactions or other material information.
c. Intentionally misapplying accounting principles that associated with quantities, classifications, presentation or disclosure of financial statements.

The parties who are disadvantaged from fraudulent financial reporting are shareholders or investors, creditors, and various parties directly involved with the company. For investors, losses can be experienced in the absence of returns from the capital they have invested. As for creditors, the loss is in the form of the risk of default on the debts they have lent to the company and lead user of financial statements to make a wrong decision.

2.5 Fraud Hexagon Theory

The fraud hexagon theory is the latest fraud detection theory developed by Vousinas in 2019. Prior to the fraud hexagon theory, there were several fraud detection theories, namely fraud triangle theory, fraud diamond theory and fraud pentagon theory. Fraud triangle theory is the first fraud theory which was the developed by Donald R. Cressey (1953). He reveals that fraudulent act always occurs followed by three factors, namely pressure, opportunity, and rationalization. The first factor is pressure which is the existence of an incentive or stress that caused someone to commit fraud. Pressures can deal with almost anything including lifestyle, economic needs and others including financial and non-financial needs. Second factor is opportunity, which is a circumstances that opens an opportunity to allow someone to commit fraud. The third factor is rationalization which is an attitude, character, or set of ethical values that allows certain parties to commit fraud, or people who find themselves in a difficult situation that causes them to rationalize fraudulent behaviour act. These three things above are illustrated in the following figure:

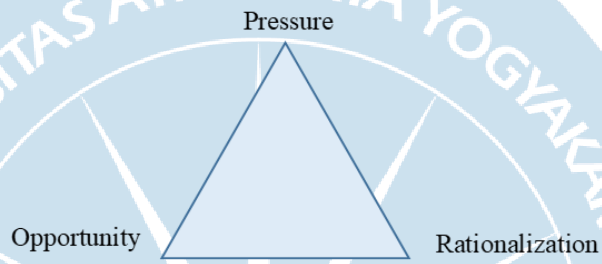

Figure 2.1 Fraud Triangle Theory

The second theory development was carried out by Wolfe & Hermanson in 2004, which is the development of the fraud triangle theory by adding one element, namely capability. Capability means power, potential and capacity a person has to commit fraud in the company environment. Wolfe and Hermanson argue that capability is related to a person's ability to turn the opportunity for fraud into a reality. People who are able to make this happen are people who know the weaknesses of internal control and use their functions and positions to commit fraud.

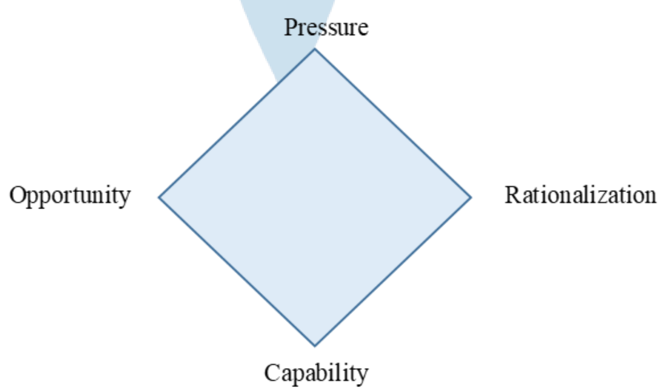

Figure 2.2 Fraud Diamond Theory

The third theory development was carried out by Horwarth, 2011 which is the development of the diamond fraud detection theory by changing the capability factor to competency and adding the element of arrogance. Competency is almost the same as capability, which reflects the ability of employees to commit fraud in the company. Meanwhile, arrogance is described as an attitude of dominance because of the power and rights they have (Ikaristi, 2021).

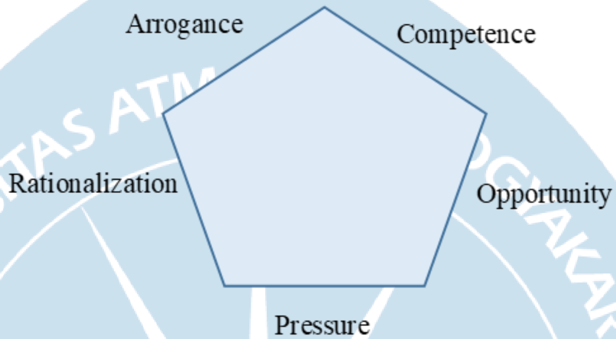

Figure 2.3 Fraud Pentagon Theory

There are several models that can be used to detect the aspects that influence someone to commit fraud. The Fraud Hexagon Model is the latest approach, this theory advanced by Vousinas in 2019. All aspects in the previous Fraud Pentagon model are: stimulus (pressure), capability, opportunity, rationalization and ego (arrogance) were advanced to the Fraud Hexagon Model by adding one more aspect, namely collusion.

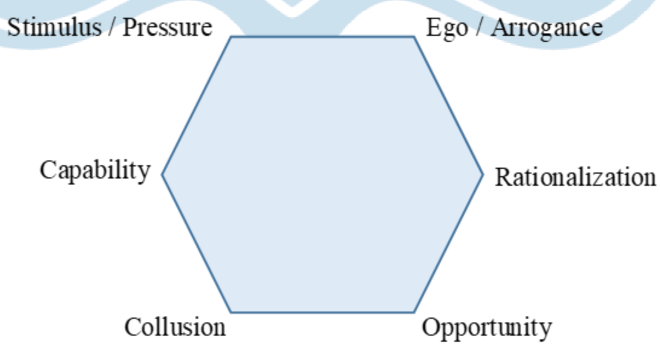

Figure 2.4 Fraud Hexagon Theory

2.5.1 Stimulus / Pressure

Stimulus or pressure is a condition that motivates someone to perpetrate fraud (Cressey, 1953). The urge to commit fraud can be caused by financial or non-financial factors. This pressure is caused by various things, for example during a crisis, companies are required to present better financial performance because they have to meet targets that have been made. Vousinas (2019) further explained that stimulus put more pressure on individuals during the economic crisis because companies need to cut costs in order to meet their financial target as the company's budgets become tighter. Besides that, high financial needs, a work environment that causes frustration and pressure to achieve the desired position in a short time can also motivate someone to perpetrate fraud. According to SAS No. 99, there are four general types of pressure that lead to fraudulent financial statements, namely:

a. Financial target

   Financial Target a certain target that must be achieved by the company, it can be in the form of profits that must be achieved by the company in a period (Sasongko & Wijayantika, 2019).

b. Personal financial need

   According to Beasley (1996) personal financial needs is when executives have a significant financial stake in a firm, their personal financial situation may be threatened by the firm's financial performance.

c. Financial stability

   Skousen et al., (2009) explains that financial stability occurs when the company experiences vulnerability due to economic conditions, operating entities and industry. This condition causes managers to experience pressure, so they are compelled to commit financial statement fraud.

d. Pressure from outside parties or third parties (external pressure).

   External pressure is a situation where management faces pressure to meet the expectations of third parties or external parties of the company (Sasongko & Wijayantika, 2019). Management is often under pressure due to the need for additional external funding sources in order to be competitive (Skousen et al., 2008).

According to Skousen et al., (2009), the urge to commit fraud usually occurs when the company has a performance below the industry average or experience financial instability. Poor company performance causes investors and other external parties have a bad perception of the company and doubt the company's performance. This situation can encourage management to manipulate the financial statements.

2.5.2 Opportunity

Opportunity is a chance for a certain individuals or groups to commit fraud that cannot be detected through general information and technical skills. Research results have shown that the position and the inherent authority can provide opportunities to commit fraud (Vousinas, 2019). Opportunity can be reviewed in the following factors, namely:

a. Nature of Industry

   According to Kurniawati (2021) nature of industry is the condition of a company's accounts receivable. In the financial statements there are certain accounts that the balance are determined by the company based on an estimate, such as uncollectible receivable and obsolete inventory accounts. Because the amount of the balance can be determined by the company, the company is more flexible to make changes to the balance or manipulate it without raising suspicion (Sasongko & Wijayantika, 2019).

b. Effective Monitoring

   Effective monitoring is a situation where the company has a monitoring unit that is effective in monitoring the company's performance, to prevent management from committing fraud.

c. Organizational Structure

   This is related to the unstable organizational structure of the company, due to changes in positions within the company, the difficulty to determine which party has more important control in the company and the complex structure within the organization. This instability can create opportunities to commit financial statement fraud (AICPA, 2002).

2.5.3 Rationalization

Rationalization is a justification that arises in management's mind when fraud has occurred (Shelton, 2014). People who commit fraud will use various reasons and excuses for making fraudulent behavior more acceptable (Vousinas, 2019). According to Vousinas (2019) there are several reasons to justify fraudulent actions, for example, the perpetrators will return the assets taken or used later, the perpetrators feels they deserve to get this asset because they have worked for the company for a long time and the perpetrators feel that no one know or notice their fraudulent act. Rationalization can be measured through several indicators. According to Lokanan & Sharma (2018) and Skousen et al., (2008) measurement of the rationalization can use changes of auditor and audit opinion which indicates audit quality. Companies that commit fraudulent financial statements often replace external auditors to reduce the detection of fraud during the audit of the financial statements. Change or replacement of auditors in a company is a form of effort to eliminate the fraud trail that was detected by the previous auditor. Hence the possibility of fraud being detected will become lower because the new auditors who replace the old auditors do not fully know the state and details of the company (Siddiq et al., 2017). In addition, when a company uses a new/replacement auditor, information asymmetry can occur between the company and the auditor. This is because the auditor has less information when compared to the information that management has about the company (Achmad, 2019). Therefore, the researcher will use change in external auditor as a proxy for rationalization elements.

2.5.4 Capability

Capability refers to an individual's abilities and skills that play a major role in the actual occurrence of fraud by taking advantage of pressure, opportunity, and rationalization (Vousinas, 2019). Several billion-dollar financial statement frauds can occur because they are carried out by people who have the capabilities in implementing the details of the fraud. From this explanation, it can be seen that the positions of directors, CEOs and division heads can be a factor in the occurrence of fraudulent actions.

In this research, the researcher uses the education level of CEO (Chief Executive Officer) or President Director to proxy the element of capability. CEO education is a competency possessed by CEOs that can influence decision making appropriately by considering various factors and suggestions received (Kusumosari & Solikhah, 2020). Educated, knowledgeable, and insightful leaders are expected to be able to identify, analyze, and make appropriate policies in order to maximize all opportunities for success, especially financial performance in the future (Jannah, 2017). Soselisa & Mukhlasin, (2008) also argue that Master's degree education increases self-interested behavior that can harm other parties. The ability of the President Director or CEO in managing company operations and finances has the potential to prioritize personal interests by committing fraudulent financial statements. So, it is suspected that the higher the education level taken by the President Director or CEO, the higher the chance of fraudulent financial statements.

2.5.5 Ego / Arrogance

In Horwarth (2011), states that arrogance shows an attitude of superiority because of the rights they have. The nature of arrogance arises when the President Director considers that the company's policies and internal control do not apply to him so that he feels that the fraud committed is not a wrong action. According to the ACFE Indonesia (2017), the longer the working period, the higher potential for someone to commit fraud. Perpetrators of fraud with a long service period feel that they have not committed fraud because they consider this action to be reciprocal for their services or dedication to the company. Therefore, the researcher uses the length of tenure of the President Director or CEO as a proxy for the ego element.

2.5.6 Collusion

According to Vousinas (2019), collusion is cooperation carried out by several parties, both by individual groups and parties outside the organization, as well as cooperation between employees within the organization. Moreover, Reports to the Nations on Occupational Fraud and Abuse published by ACFE (2016) states that almost half of fraud cases involve many people colluding with others to commit fraud, the more fraudsters involved, the greater the loss will be. Following the research from Kusumosari (2020) shows that collusion can be proxied by using the political connections that the company has.

2.6 Previous Research

Research on the analysis of fraudulent financial statements with the fraud hexagon approach has been carried out previously by several researchers and gave various results. These studies are summarized in the table below:

Table 1

Previous Research

Researcher	Research Title	Variable	Results
Yanti & Riharjo (2021)	Detecting Fraud in Financial Reporting Using Fraud Pentagon Theory	Independent: X_1 = Financial Stability X_2 = Nature of Industry X_3 = Change in Auditor X_4 = Change of Directors X_5 = Frequent number of CEO's pictures Dependent: Y = Fraudulent financial statements	Fraud Pentagon elements consisting of directors change, frequent number of CEO's picture and nature of industry have a significant influence on fraudulent financial reporting. While other elements, namely auditor change, financial stability have no significant effect.
Daud & Yuniasih (2021)	The Influence of Pentagon Fraud Factors on Fraudulent Financial Reporting in Mining Companies Listed on the Indonesia Stock Exchange 2016 - 2018	Independent: X_1 = Financial Stability X_2 = Nature of Industry X_3 = Change in Auditor X_4 = Change of Directors X_5 = Frequent Number of CEO's Pictures Dependent:	Factors from the Pentagon Fraud that effect financial statement fraud are external pressure, auditor's opinion, CEO dualism and financial targets. While other factors, namely ineffective monitoring,

		Y = Financial statement fraud	directors change and audit quality have no effect.
Imtikhani & Sukirman (2021)	Determinants of Fraudulent Financial Statements Through Fraud Hexagon Theory Perspective in Mining Companies	Independent: X_1 = Financial Stability X_2 = External Pressure X_3 = Effective monitoring X_4 = Auditor Change X_5 = Director Change X_6 = CEO duality X_7 = Political Connection Dependent: Y = Financial Statement Fraud	Fraud Hexagon elements that effect financial statement fraud are financial stability and external pressure. While other elements of Fraud Hexagon that have no effect on financial statement fraud are the change of auditor, effective monitoring, change of director, CEO Duality and political connection.
Kurniawan & Trisnawati (2021)	Fraud Hexagon in Detecting Fraudulent Financial Statements: A Study on Mining Companies Listed on the Indonesia Stock Exchange (IDX) 2016-2019	Independent: X_1 = Financial Stability X_2 = Financial Target X_3 = External Pressure X_4 = Cooperation with Government Project X_5 = Change of Director X_6 = Ineffective Monitoring X_7 = Change in Auditor Dependent: Y = Fraudulent financial statements	Fraud hexagon factors that has effect on fraudulent financial statement is only ineffective monitoring. While other factors of Fraud Hexagon that consist of external pressure, capability, nature of industry, financial target, arrogance and collusion have no effect of fraudulent financial statement.
Febrianto & Suryandari (2022)	Analysis of Fraud Factors in Financial Statements Through Fraud Hexagon Theory in Mining Companies Listed on the Indonesia Stock Exchange (IDX) 2016-2019	Independent: X_1 = Financial Target X_2 = External Pressure X_3 = Change of Directors X_4 = Collusion X_5 = Nature of Industry X_6 = Change of Auditor X_7 = CEO Duality Dependent: Y = Financial Statement Fraud	The results of this study indicate that the fraud hexagon elements that have a positive effect on fraudulent financial statement are the nature of industry and financial targets. Other elements such as external pressure, change of directors, collusion and change of auditors have no effect on fraudulent financial statements in mining companies.

			Whereas, CEO duality has a negative but not significant effect on fraudulent financial statements in mining companies.

2.7 Hypotheses Development

2.7.1 The Effect of Financial Target on Fraudulent Financial Statement

In carrying out its operational activities, companies often determine the amount of profit to be achieved on operational activities that have been carried out, the reasons for achieving these goals are financial targets (Putriasih et al., 2016). The company always try to achieve a fairly high financial target that has been determined in order to obtain large amounts of funds from investors. Thus, the higher the financial target, the greater the pressure faced by the company's management to achieved it. This makes management compelled to commit fraudulent financial statements by displaying amounts that do not match company's actual financial conditions (Wicaksono & Suryandari, 2022).

Furthermore, according to Statement on Auditing Standards (SAS) No. 99 Financial Target is pressure on management to do the best performance to achieve a certain target, where usually bonuses and incentives to be received are based on sales results or profits that can be obtained. According to Bawekes et al. (2018) in Octani et al., (2021), the higher the company's ability to achieve its financial targets, it can be said that the company's performance is getting better. However, sometimes there are certain factors that cannot be controlled by the company so that the financial targets that have been set cannot be achieved and the company's performance will be doubted. The pressure on achieving financial targets to get bonuses and incentives as well as maintaining the existence of the company is what triggers the occurrence of fraud. This is supported by the results of several studies done by Wicaksono & Suryandari (2022), Agusputri & Sofie (2019) and Anggono & Sakti (2021). Thus, the hypothesis can be formulated as follows:

H_1: Financial target has a positive effect on fraudulent financial statement.

2.7.2 The Effect of Nature of Industry on Fraudulent Financial Statement

Nature of Industry refers to the condition of a company's accounts receivable (Kurniawati, 2021). Summers and Sweeney (1998) in Khamainy et al., (2021) argue that accounts receivable require subjective judgment in estimating uncollectible accounts. So that managers will focus on these two accounts if they intend to manipulate financial statements. Accounts receivable require subjective assessment from management to estimate the possibility of uncollectible amounts. This subjective assessment is an opportunity for management to be able to use the account as a means to manipulate financial statements (Sihombing & Rahardjo, 2014).

Furthermore, manipulations of accounts receivable are an easy way for managers to increase sales growth. Sales growth is one area watched closely by investors, thus changes in receivables tend to be highly indicative of potential fraud (Skousen et al., 2009). Previous research from that Sihombing & Rahardjo (2014) Putri & Lestari (2018) and Apriani & Riadi (2019) showed that nature of industry has positive and significant effect on fraudulent financial statement. Thus, the hypothesis can be formulated as follows:

H_2: Nature of industry has a positive effect on fraudulent financial statement.

2.7.3 The Effect of Change in Auditors on Fraudulent Financial Statement

Rationalization is defined as a form of justification for fraudulent acts and assumes that these actions are reasonable to do. Rationalization can encourage fraudulent actions in financial statements because fraud perpetrators consider their actions right and reasonable (Leo Handoko, 2021). A person who has the duty and authority to conduct audits and supervise financial reports that have been prepared and presented by the company's management is an auditor. The change of the public accounting firm or auditor is carried out to cover up or eliminate the traces of fraudulent financial statement acts committed and have been known by the previous public accounting firm or auditor. Companies tend to replace their external auditors when the company wants to hide things that are not fair from the public, with a lower quality auditor than the previous auditor.

Besides that, the new external auditor cannot directly detect forms of fraud committed by management, because they are not accustomed to auditing the company (Rianto & Kesumaningrum, 2015). So the company considers that the change of auditors can eliminate the traces of the previous auditor's findings. This tendency triggers companies to change auditors in order to cover up fraud in the company. So that when the company replaces the auditor, it can be indicated that there is an act of fraud in the company (Mukaromah & Budiwitjaksono, 2021). In addition, Skousen et al., (2009) also believes that the change of auditors will result in audit failures and will increase litigation. Previous researches conducted by Septriani & Desi Handayani (2018) and Rachmania (2017) proved that the change in external auditor has effect on fraudulent financial statement. Hence, the hypothesis can be formulated as follows:

H_3: Change in external auditors has a positive effect on fraudulent financial statement.

2.7.4 The Effect of President Director's Education Level on Fraudulent Financial Statement

Capability is a person's ability to commit fraud which can be proxied using CEO's education level. Education is a process of developing knowledge and abilities that make a person qualified in his field. Jannah (2017) argues that educated, knowledgeable, and insightful leaders are expected to be able to identify, analyze, and make appropriate policies in order to maximize all opportunities for success (especially financial performance) in the future.

According to the Indonesia Fraud Survey 2019 conducted by ACFE Indonesia, in terms of the education level of the fraud perpetrators, it was found that the most fraud perpetrators had at least college or bachelor education level. In addition, according to the Report to the Nations 2020 Global Study on Occupational Fraud and Abuse, fraud perpetrators with postgraduate degrees resulted in the highest median loss of $200,000, which was higher compared to fraud perpetrators with lower graduate degree. From these data, it can be seen that fraud losses are correlated with a person's level of education. This is because those with higher levels of education have greater technical ability to commit fraud and hold higher positions of authority within the company.

There is a connection between CEO education level and agency theory. The higher the education level of CEO makes CEO who is management as agent, has higher competencies or capabilities in managing the company compared to the principal. This encourages agents to hide information that is not known to the principal. This asymmetry allows agents to manipulate the information presented in financial statements that indicates fraud (Wicaksono & Suryandari, 2022). Furthermore, according to Lestari & Henny (2019), the higher a person's education level, the easier it will be to see the weakness of a standard or manipulate financial statements with his knowledge. This is because CEO with Master's degree tends to have a higher self-interested behavior that can disadvantaged other parties (Soselisa, 2008). Since this research uses mining sector as the sample, so the researcher will use the education level of President Director. Hence, the hypothesis can be formulated as follows:

H_4: President Director's education level has a positive effect on fraudulent financial statement.

2.7.5 The Effect of Length of Tenure of the President Director on Fraudulent Financial Statement

Stakeholders have more expectations towards the company to increase their financial performance each year. This situation drives CEO to present a good financial performance to stakeholders and could lead to fraudulent act. Wolfe & Hermanson (2004) also stated that the position of top officials such as: CEO, director, and other division heads are factors that determine the occurrence of fraud. This is because they can use their position to influence others to comply with their orders and use their abilities to take advantage of circumstances that can facilitate fraudulent actions. The longer the CEO serves, the more experience and knowledge the CEO has, this will lead to the CEO's arrogance. Moreover, according to Wang et al., (2017) in Christian & Visakha (2021) CEO tenure that is too high will lead to centralization of power and this will affect the performance of the audit committee and the company's internal auditors. This causes fraud to tend to be higher on financial statement.

Based on the results of the 2019 Indonesia Fraud Survey published by ACFE Indonesia (2020) , on average, individuals who commit fraud have a working period of more than 6 years. There are indications that the longer work experience can make the perpetrators know more about the conditions of the work company and the weakness of company's internal control that can be used to commit fraud compared to perpetrators with a shorter work experience or under 6 years of tenure. The survey also mentions that the number of losses due to fraud tends to be higher for fraud perpetrators with a relatively long tenure. Research from Herawaty & Solihah (2019) results that CEO tenure has a positive effects on fraud. In this study, the researcher will use the length of term of tenure of the President Director because the researcher uses the mining sector.

H_5: Length of tenure of the President Director has a positive effect on fraudulent financial statement.

2.7.6 The Effect of Political Connection on Fraudulent Financial Statements

Collusion is an additional element as a trigger factor in the occurrence of fraud. Collusion is an agreement between two or more people for negative purposes, such as defrauding third parties of their rights (Vousinas, 2019). In line with researches done by Sagala, Samuel Gevanry; Siagian (2021) and Kusumosari (2020) which used political connection that the company has as the proxy for collusion. According to Purwoto (2011), politically connected companies are companies that in certain ways have political ties or seek to be close to politicians or the government. With political connections, companies are able to obtain many benefits, for example are able to obtain or involve in projects government's projects and easier to obtain permits to open mining areas in a certain location. In addition to taking advantage of political connections, the company will also try to show good financial performance in financial statements so that it is more trusted to win government project tenders. Previous studies conducted by Matangkin et al., (2018) and Kusumosari (2020) revealed that political connection as a proxy for collusion has a positive effect on fraudulent financial statement. Therefore, the hypothesis can be formulated as follows:

H_6: Political connection has a positive effect on fraudulent financial statement.

2.8 Research Framework