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DETECTION FINANCIAL STATEMENT FRAUD SHARIAH BANK IN INDONESIA: ROLE OF POLITIC CONNECTION, FINANCIAL STABILITY, IN EFECTIVE MONITORING

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ABSTRACT
Financial statement fraud is an effort to achieve the goal, namely to gain profits by committing fraudulent practices, harming other parties either intentionally or negligently. Companies are often oriented towards the appearance of good financial performance, with the aim of pleasing all stakeholders in the selection of financial statements. This causes the management as an agent to do everything in the process of preparing financial statements. Agents try to show that the company's financial statements are able to penetrate and win in the stock market The research method used in this study is a quantitative method with the aim of measuring the strength of the relationship between dependent variables and independent variables. The determination of the sample carried out is purposive, that is, it is selected with certain considerations and objectives. The sample used is a bank with a sharia base in Indonesia that has met the criteria for research needs. There are 12 Islamic banking companies during the 2019-2023 period that will be studied in this study. political connections have no effect on financial statement fraud. financial stability has an effect on financial statement fraud. that innefective monitoring has no effect on financial statement fraud. Compared to fraudulent financial statements The limitation of this research is that the variables used to detect fraud are not comprehensive enough, so recommendations for future research could reveal variables that can detect financial statement fraud. The second limitation is that the data used is only data from Islamic banks in Indonesia. Future research can include data comprehensively across countries so that research results can be generalized.

Keywords: Financial Statement Fraud, Politic Connection, Financial Stability

INTRODUCTION

Financial statement fraud is an effort to achieve the goal, namely to gain profits by committing fraudulent practices, harming other parties either intentionally or negligently (Kagias et al., 2022; Sudirman et al., 2023). Companies are often oriented towards the appearance of good financial performance, with the aim of pleasing all stakeholders in the selection of financial statements (Wicaksono & Suryandari, 2021). This causes the management as an agent to do everything in the process of preparing financial statements. Agents try to show that the company's financial statements are able to penetrate and win in the stock market (Wang et al., 2017). The agent commits fraud in the process of preparing financial statements through the manipulation of part of the account that can be used to deceive. Without realizing it, this can plunge and threaten the company's legitimacy. The impact of financial statement fraud can be seen in the loss of investor confidence. Companies that are unable to go concern, resulting in a loss of creditor trust (Riyanti, 2021). The quality of financial statements will encourage a good reputation of the company to attract investors (Harymawan & Nurillah, 2017).

According to data from ACFE (Association of Certified Fraud Examiners) which conducted the Indonesia Fraud Survey in 2016 and 2019, the survey showed that the number of financial statement fraud cases increased from 2% to 9.2%. The results of the corruption case survey increased from 67% to 69.9%. Meanwhile, cases of asset misappropriation decreased from 31% to 20.9%. Cases of financial statement fraud have increased significantly, which is as many as four times. Cases of financial statement fraud in Indonesia often occur in State-Owned Enterprises (SOEs) (Khamainy et al., 2022).

This study tries to detect things that can cause financial statement fraud. One of them is political connections, as political connections will weaken a company's manager's ability to provide high-quality financial reporting (Wang et al., 2017). Companies that have political connections tend to solve problems through political connections, which has an impact on the low quality of financial reports (Sai, 2013).

The research gap regarding the connection between politics and financial statement fraud stems from research (Jennings et al., 2021) which revealed that financial statement fraud is not caused by capital market pressure, manager incentives, but rather tends to be the best for policymakers or the government. In contrast to (Ahmad et al., 2022; Rezazadeh & Mohammadi, 2019) who state that companies with political connections tend to be more opportunistic in preparing financial statements so that they look good and attractive to all interests. San (2022) in his research said that directors who have the strength of political connections show a low level of professionalism so that the quality of performance shows low quality. Political connections can also increase the potential risk of initial statement fraud (Gross et al., 2016). The above inconsistency is an extension of this study that there is a relationship between political connections and financial statement fraud.

The investigation of financial statement fraud in this study continues to the influence of financial stability. Financial stability is an effort to stabilize a company's finances in stable conditions. The company's efforts in an effort to achieve financial stability are always trying to improve its finances or at least in a state of stable conditions (Aguspautri & Sofie, 2019). Financial stability will threaten companies to tend to commit fraud in financial statements (Khamainy et al., 2022). The company seems to make the financial statements on the asset management account look stable so that it looks good and perfect for investors (Tiffani, 2015).

The relationship between financial stability and fraud in financial statements is still inconsistent. Pamungkas & Utomo,(2018) in their research stated that financial stability has no effect on financial statement fraud. In contrast to research (Pramono Sari et al., 2020) which states that financial stability has an influence and is significant on fraud in financial statements. In line with research (Ahmad et al., 2022) which states that the fraud detection system through financial stability in the measure of asset value growth has a significant effect on financial statement fraud.

The investigation of financial statement fraud is the next factor of ineffective monitoring. An effective monitoring system encourages the optimal achievement of company goals (Rahmatika et al., 2019). A good supervisory function will provide little opportunity for financial reporting. The better the monitoring function, the less fraudulent financial statements will be.

Previous research on ineffective monitoring has proven to be able to detect fraud in financial statements (Apriliana & Agustina, 2017). Research by Evana et al.(2019) which stated that monitoring has a positive and significant effect on the financial statements of the people. In contrast to research that states that effective control mechanisms do not have an effect on financial statement fraud (Nanda et al., 2019; Pramono Sari et al., 2020). The purpose of this study was to detect fraud in financial statements in Shariah banks through several factors, namely political connections, financial stability, and ineffective monitoring. Detection of potential factors carried out by the company in displaying financial statements to all stakeholders. The novelty of this study lies in the context of Islamic banks, so this research contributes to the expansion of financial statement fraud literacy in Islamic banks.

LITERATURE REVIEW

Agency Theory

Agency theory reveals the relationship between shareholders who act as principals and management as agents of (Meckling & Jensen, 1976). The relationship occurs because the principal is not active in the management of the company directly, but delegates business management tasks directly to the management (agent). Normatively, management manages a business company for the benefit of shareholders and management accounts for its duties and authority to shareholders. Shareholders want a high rate of return on investment invested, so management must work optimally to make that happen. Bn Principal in this case has an obligation to the agent, namely providing financial compensation or incentives for his work in managing the company's business. The different interests between the two parties are what cause conflicts of interest.

The moral desire of the manager as an agent arises because there are differences in interests. Agents think of making decisions as their duty without thinking about the impact and risk, because they think that risk is the responsibility of the principal. Agents also think that optimal profits only enrich the principal, without the principal thinking about the compensation given to the agent. Finally, the agent tried to make an attempt to cheat on the financial statement. The agent tries to make the financial statements good manipulatively with the intention of making them in accordance with the objectives of the stakeholders. Even if there is a loophole that provides benefits to the agent, the agent will maximize the profit, without the principal realizing it.

The media that is used as an agent in committing fraud is financial statements. Financial statements are a structured, systematic, and integrated accounting process based on company performance as evidence of transparency and accountability to stakeholders (Trisanti, 2020). A company's financial statements are a source of information that can reflect the company's financial condition and performance in a certain period (Trisanti, 2020). Fraud according to The Association of Certified Fraud Examiners (ACFE) is an unlawful attempt with the purpose and attempt to manipulate in presenting an untrue report or report. This is done either directly or indirectly. Without realizing it, the act is for their own benefit or the interests of a certain group with full awareness and results in losses (Biduri & Tjahjadi, 2024).

HYPOTHESIS

Effect of political connections on financial statement fraud

Companies that have a relationship with the government will receive a lot of pressure and demands. Companies that in this case management, commissioners, or the preparation of financial statements tend to prepare financial statements as best as possible, covering up weaknesses with the goal of benefiting some parties (Wang et al., 2017). Such intervention situations lead to weak intervention in compliance with applicable accounting standards, to the detriment of investors' interests (Sudirman et al., 2023). Companies that have political connections, tend to achieve the company's wishes by collusion.

Research Khajavi,(2021) reveals that political connections affect financial statement fraud through legal leeway from these political connections. Ali and Hasan (2022) in their research revealed that companies with strong political connections tend to cheat on financial statements so as not to disappoint all stakeholders. This is in line with research (Sang, 2013; Alyahni, et al., 2023) who stated that political connections have an effect on financial statement fraud.

Hypothesis 1 (H1). A political connections *has a positive effect on Financial Statement Fraud*

The effect of financial stability on financial statement fraud

The relationship between financial stability and financial statement fraud is shown through agency theory. Management as an agent will try to maintain the company's financial stability from market demands and investor expectations. If the company's financial stability is threatened, it will encourage the company to commit fraud in financial statements (Apriliana & Agustina, 2017). The company will lose trust when financial stability is unstable (Achmad et al., 2022), so management will ensure that financial statements as proof of performance will always be good by legalizing all means. This is in line with research (Achmad et al., 2022; Irwandi et al., 2019) which reveals that financial statement fraud is supported by unstable financials.

The company's financial stability condition shows a benchmark of management performance. When financial instability occurs, management will face a lot of pressure from both principals, investors and all stakeholders in financial statements. Management pressure is heavier because it is considered incapable of asset management and profit optimization. The effort made by the management is to try to display the financial statement as best as possible in any way, including fraud in it. This is in line with research (Ahmad et al., 2022; Tiffani, 2015) which states that financial stability has an effect on financial statement fraud.
Hypothesis 2 (H2). ***Financial stability has a positive effect on Financial Statement Fraud***

Effects of ineffective monitoring of financial statement fraud
The main prevention of financial statement fraud is the effectiveness of supervision (Nanda et al., 2019). Contrary to this, weak oversight mechanisms cause management to tend to have great potential to commit fraud in financial statements. Ineffective supervision of the company shows the absence of a supervision and evaluation mechanism to monitor management performance. The low quality of supervision leads to low audit quality, lack of transparency, lack of discipline, which leads to the emergence of fraud in financial statements (Ahmad et al., 2022). An effective and systematic supervision mechanism is needed to monitor the performance of management as an agent who receives an authorized task from the principal. The better the supervision mechanism, the less potential for fraud committed by management (Husmawati et al., 2017). revealed that the better the supervision mechanism, the fewer opportunities to commit fraud. On the other hand, the more effective the monitoring system, the higher the tendency of managers to cheat on financial statements (Khamainy et al., 2022).
Hypothesis 3 (H3) ***Financial stability has a positive effect on Financial Statement Fraud***

METHODS

The research method used in this study is a quantitative method with the aim of measuring the strength of the relationship between dependent variables and independent variables. The determination of the sample carried out is purposive, that is, it is selected with certain considerations and objectives. The sample used is a bank with a sharia base in Indonesia that has met the criteria for research needs. There are 12 Islamic banking companies during the 2019-2023 period that will be studied in this study. The data used is secondary data obtained from financial statements and information on the Islamic bank's website. Data processing tools using the help of the Eviews application 12.

Table 1 Definition and analysis

No	Variabel	Definisi Operasional	Pengukuran
1	Fraud Financial Statement	Fraud is fraud that is deliberately carried out in various ways and is deceptive in nature that aims to gain profits for the company by violating legal provisions which on the other hand can harm other parties.	F-Scores = Accrual quality + Financial Performance
2	Political connections	Political connections are categorized if the company has a relationship with politicians. That is, those who have been politicians or are currently becoming politicians.	The dummy variable, If there is a political connection who is a member of parliament, government, military and also a former

			official, it is given a code of 1, if not it is given a 0.
3	Financial Stability	Financial stability is the financial condition of a company that shows whether the company's state is stable or not.	ACHANGE = Total Assets t – Total Assets (t-1)/ Total Assets (t-1)
4	Effective Monitoring	Effective monitoring is the management of the company that makes it possible to check progress and find ways to make changes for the company.	Number of independent board of commissioners/ number of board of commissioners

Source: Processed research data (2024)

RESULTS

Based on the results of the root unit test table to see the stationerity of the data with the Levin, Lin, Chu common root test method, not all stationary data is used at the level level. Based on the test, the variables Y (fraud financial statement), X2 (financial stability), and X3 (inneffective monitoring) are stationary at the level level. The X1 variable (political connection) is not stationary at the level level because the probability value is greater than Alpha 0.05, but it is stationary in the first difference test with a probability value of 0.0005 < 0.05.

Table 2 Stationary Test Results.

Variable	Level	1st difference
	Probability	Probability
Y	0.0000	0.0000
X1	0.1448	0.0005
X2	0.0000	0.0000
X3	0.0003	0.0312

In determining the selection of the regression model to get the best results, the Lagrange Multiplier Test was carried out which showed that the probability was 0.0512 > 0.05 (Alpha value). Therefore, it can be concluded that the Common Effect Model or Pooled Least Square (PLS) is the best estimation method for this study.

Table 3 Lagrange Multiplier (LM) Test

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided
(all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	3.802922 (0.0512)	0.089844 (0.7644)	3.892766 (0.0485)
Honda	1.950108 (0.0256)	-0.299740 (0.6178)	1.166986 (0.1216)
King-Wu	1.950108 (0.0256)	-0.299740 (0.6178)	0.750349 (0.2265)
Standardized Honda	2.524178 (0.0058)	-0.039199 (0.5156)	-1.693249 (0.9548)
Standardized King-Wu	2.524178 (0.0058)	-0.039199 (0.5156)	-1.880937 (0.9700)
Gourieroux, et al.	--	--	3.802922 (0.0629)

HYPOTHESIS TEST

Effect of political connections on financial statement fraud
Table 4 shows that the relationship between the variables of political connection and financial statement fraud shows a t-value of 1.242076 which is higher than the T-table 2.012895599 with prob. 0.2194 > 0.05 then this result means that political connections have no effect on financial statement fraud. The existence of political connections will have no effect if it is embedded in oneself goodness and honesty as well as a sense of not wanting to harm others.

Effect of financial stability on financial statement fraud
By showing it in the table 4 the t value is 2.336295 > 2.012895599 (t table) and the probability value is 0.0231 which is less than 0.05. This result means that financial stability has an effect on financial statement fraud. Financial instability will certainly be very detrimental to any company so that it allows companies to commit fraud in their financial statements to correct the instability.

Effects of ineffective monitoring of financial statement fraud
Proven by the t calculation of 1.430349 < 2.012895599 and the probability value of 0.1582 > 0.05, it can be concluded that innefective monitoring has no effect on financial statement fraud. Compared to fraudulent financial statements, the ineffectiveness of the Company's monitoring can lead to innovations and solutions to overcome these problems.

Table 4 Test t

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.097211	0.284088	3.862229	0.0003
X1	0.357760	0.288033	1.242076	0.2194
X2	0.807462	0.345616	2.336295	0.0231
X3	-0.209304	0.146331	-1.430349	0.1582

The F test was carried out to determine the influence of all independent variables on the bound variables. Based on the tests that have been carried out, the results of F-statistics are 2.821167 > 2.816465817 (F table) and Probability 0.047038 < 0.05. Therefore, it can be concluded that the variables of political connection, financial stability and innefective monitoring simultaneously affect financial statement fraud.

Table 5 Test F

R-squared	0.131291	Mean dependent var	1.166667
Adjusted R-squared	0.084753	S.D. dependent var	0.895879
S.E. of regression	0.857074	Akaike info criterion	2.593756
Sum squared resid	41.13625	Schwarz criterion	2.733379
Log likelihood	-73.81267	Hannan-Quinn criter.	2.648370
F-statistic	2.821167	Durbin-Watson stat	2.005534
Prob(F-statistic)	0.047038		

Next is the R2 Determination Coefficient Test which aims to measure how far the model is able to apply dependent variables. The magnitude of the Adjust R Square is 0.084753 is 8.47%. The results of this statistical calculation mean that the ability of the independent variable to explain the variation of the change in the dependent variable is 8.47% while the rest is explained by other factors outside the regression model analyzed.

Table 6 Determination Coefficient Test

R-squared	0.131291	Mean dependent var	1.166667
Adjusted R-squared	0.084753	S.D. dependent var	0.895879
S.E. of regression	0.857074	Akaike info criterion	2.593756
Sum squared resid	41.13625	Schwarz criterion	2.733379
Log likelihood	-73.81267	Hannan-Quinn criter.	2.648370
F-statistic	2.821167	Durbin-Watson stat	2.005534
Prob(F-statistic)	0.047038		

DISCUSSION

Koneksi Politik on Financial Statement Fraud

The results of hypothesis testing in this study show that hypothesis 1 (H1) is rejected. This indicates that companies that have political connections do not have an impact on accidents carried out in financial statements. Companies with political connections will take advantage of their political connections to achieve the company through collusion, transactional, or providing certain interests, arrogantly. This has no impact because of the direction, the commissioner does not take advantage of political connections to achieve company goals (Wibowo & Putra, 2023). This is not in line with research (Khajavi, 2021) which states that political connections support management to impose conditions on financial reports. The company takes advantage of political connections by complying with regulations to create healthy and good financial reports and does not disappoint all stakeholders. The results of this research are not in accordance with agency theory, because management tends not to use the authority of political connections for personal interests. There is no conflict of interest in this research, so political connections have no impact on the condition of the financial statements.

Financial Stabillity on Financial Statement Fraud

The results of hypothesis testing in this study show that hypothesis 2 (H2) is accepted. This proves that financial stability, which is measured using changes in total assets, has a positive and significant effect on fraud in financial statements. It can be realized that if the growth of a company's assets fluctuates, it will place demands on management so that the financial reports look stable without the influence of these fluctuations. These demands put pressure on companies so that financial reports look stable, because of this pressure, companies tend to commit fraud. Financial stability is used by management as a protection detection for investors' views. Fraud can potentially be detected through financial reports with a measure of asset growth as a hedge. The results of this research are in accordance with (Ahmad et al., 2022; Evana et al., 2019) which proves that financial stability influences fraud in financial statements in accordance with agency theory. This shows that the stronger the financial stability, the stronger the pressure on management to commit fraud on financial statements. Therefore, the findings of this research can respond to agency theory which states that financial stability influences financial statement fraud

In effective Monitoring on Financial Statement Fraud

The results of hypothesis testing in this study show that the third hypothesis (H3) is rejected. This proves that the monitoring system at Islamic banks in Indonesia is adequate. This means that ineffective monitoring, as measured by the percentage of independent commissioners, does not influence fraudulent financial reporting. Therefore, this research does not support agency theory which shows that management requires supervision due to the moral hazard that arises. This research is in line with research from Nanda et al.(2019) and Pramono Sari et al.(2020), which states that effective monitoring mechanisms do not have a positive impact on financial statement fraud. This is in line with research (Ahmad et al., 2022) which states that ineffective monitoring mechanisms do not have the potential to influence false financial reporting. One of the mechanisms in place is that the independent commissioner refuses to sign the approval of the financial report if there are indications of fraud. So it is hoped that financial reports are free from fraud. The research results show that the less effective a company's monitoring mechanisms are, the smaller the possibility of financial fraud occurring. According to Alves (2014), this is supported by management deliberately bypassing the monitoring mechanism system in order to easily obtain lax compliance with the regulations for preparing financial reports.

CONCLUSION

Agency theory causes differences in interests between management and principals that arise due to the delegation of tasks to management from principals. This creates a conflict of interest on the part of management and the principal as the provider of compensation to management. Management reports financial statements as proof of its performance and responsibility towards the principal. In the interests of management, they tend to cheat on financial statements so that they always look good and do not disappoint all stakeholders. The fraud detection results in this study were due to financial stability. Political connections and ineffective monitoring have no effect on fraud committed by management on financial statements.

The limitation of this research is that the variables used to detect fraud are not comprehensive enough, so recommendations for future research could reveal variables that can detect financial statement fraud. The second limitation is that the data used is only data from Islamic banks in Indonesia. Future research can include data comprehensively across countries so that research results can be generalized.

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