

## HOW POLITICAL CONNECTIONS INFLUENCE FRAUDULENT FINANCIAL REPORTING: INSIGHTS FROM A SYSTEMATIC LITERATURE REVIEW

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### Abstract:

Fraudulent financial reporting (FFR) continues to be a significant issue for regulators, investors, and politicians, especially in contexts where political connections affect company governance. The influence of political connections on financial transparency and fraud risk is a subject of extensive dispute, with certain research indicating that politically connected companies enjoy regulatory leniency, whereas others contend that these links offer stability and oversight. Although considerable study has been conducted on political connections and FFR independently, a comprehensive knowledge of their interaction is yet insufficiently examined. This study performs a systematic literature review (SLR) to investigate the correlation between political connections and FFR. A structured methodology was employed to analyse data from 17 research papers indexed in Scopus or WOS, aiming to identify principal themes, methodological frameworks, and empirical results. The review adheres to the PRISMA guidelines to guarantee rigour and transparency. Research suggests that political connections undermine governance mechanisms, enabling earnings manipulation and fraudulent reporting, particularly in developing countries. Studies show politically connected boards weaken internal controls, reduce audit effectiveness, and face fewer legal consequences. Quantitative methods using firm-level data are common, focusing on board characteristics, political ties, and their impact on financial reporting quality. This study enhances the literature by integrating current findings and identifying research gaps. Future research should investigate the moderating influence of institutional structures, the interplay between political connections and audit quality, and cross-national comparisons to evaluate the generalisability of results. Comprehending these

dynamics is essential for policymakers in formulating policies that alleviate the detrimental impacts of political connections on financial transparency.

**Keywords:**

Corporate Governance, Fraudulent Financial Reporting, Political Connections, Systematic Literature Review

## Introduction

Financial transparency is fundamental to efficient business governance and is essential for cultivating investor confidence and market stability. The phenomenon of fraudulent financial reporting (FFR), defined as deliberate misstatements or omissions in financial statements (Fleming, 2021), represents a substantial threat to the integrity of financial markets. FFR erodes stakeholder trust, misrepresents the actual financial status of organisations, and may result in significant consequences for both companies and the wider economy (Examiners, 2024). Prominent corporate scandals, exemplified by Enron and Wirecard, have revealed the extensive consequences of financial deception, encompassing bankruptcy, regulatory penalties, and diminished public trust. These cases highlight the necessity of recognising and mitigating the factors contributing to financial malfeasance. Evidence indicates that misleading financial reporting can lead to significant financial losses, with the median reported loss from these activities amounting to \$766,000, underscoring the severe consequences for organisations and stakeholders.

**Table 1: Statistic of Occupational Fraud 2024**

| Types of Occupational Fraud | %   | Median Loss (\$) |
|-----------------------------|-----|------------------|
| Asset misappropriation      | 89% | \$120,000        |
| Corruption                  | 48% | \$200,000        |
| Financial statement fraud   | 5%  | \$766,000        |

The influence of political connections on corporate governance has received heightened scrutiny in recent years, particularly over their impact on company operations and financial transparency (Irawan & Aryati, 2021). Politically connected companies frequently possess significant benefits over their non-connected competitors, such as preferential access to resources, regulatory leniency, and political assistance (Y. Wang, Ashton, & Liu, 2024). These advantages manifest as government contracts, subsidies, bailouts, and exclusive access to government-led initiatives, which can substantially augment the financial and operational flexibility of these enterprises. Although these benefits may yield immediate advantages, they simultaneously foster conditions conducive to governance difficulties. The lack of stringent control and accountability measures, along with the safeguards provided by political connections, may encourage corporate executives to perpetrate fraudulent financial reporting (FFR)(Hidayat & Utami, 2023).

Though present research has looked at the distinct impacts of political connection and FFR, the interaction between these components is still under insufficient investigation (Riyanti, 2021; Z. Wang, Chen, Chin, & Zheng, 2017). Some studies show that political connection might

offer resources through government contracts or bailouts, therefore improving the likelihood of FFR by means of manipulative techniques to fulfil financial aims (Hidyat & Utami, 2023). Conversely, some argue that in less developed legal systems political connection could replace official government, so lowering incentives for fraud and improving supervision and compliance (Kaawoan & Yeterina Wideline, 2023; Sudirman, Hasan, Kartini, Syamsuddin, & Nirwana, 2023).

Therefore, this study aims to investigate the influence of political connection on fraudulent financial reporting using systematic literature review to explore both empirical and theoretical contributions. By clarifying contradicting results and offering a thorough understanding of the influence of political connections on financial transparency, this review improves the research. It provides information for legislators, authorities, and practitioners of corporate governance to create informed laws meant to reduce the dangers connected to politically connected companies.

## Literature Review

### *Political Connections and Resource Acquisition for Exploitation*

Political connections frequently grant corporations enhanced access to information, resources, and regulatory leniency, so substantially affecting the probability of false financial reporting (FFR). Politically connected enterprises may exploit their power to distort audit processes, diminish accounting standards, or circumvent regulatory stipulations, hence facilitating prospects for fraudulent reporting (Sudirman, Hasan, Kartini, Syamsuddin, & Nirwana, 2023). These links provide companies with a safeguard and mitigate the possibility of penalties, so lessening fundamental fraud motivators such as avarice and opportunity, potentially cultivating an atmosphere that promotes ethical financial conduct (Sudirman et al., 2023). Nonetheless, the trade-off is that these political associations may concurrently foster conditions favourable to FFR, due to the diminished probability of detection or enforcement.

### *Conflicts of Interest and Political Coercion*

Political connections may result in principal-principal and principal-agent conflicts, wherein the interests of controlling owners and management take precedence over those of minority shareholders (Harianto, 2022). Executives possessing substantial political connections may leverage their influence to obtain preferential advantages, such as enhanced access to credit or government contracts, so compromising the integrity of governance and accountability (Islam, Wong, & Yusoff, 2023). The necessity to obscure the costs and advantages of these affiliations because it is frequently stemming from ethical or legal consideration and diminishes openness and heightens the potential for conflicts of interest (Harianto, 2022). Ultimately, judgements influenced by political objectives rather than economic factors can undermine investor trust and diminish corporate value, as they jeopardise prudent decision-making and long-term business viability.

### *Political Connections as a Mediator in Fraud Determinants*

The traditional determinants of fraud, such as pressures, opportunity, and rationalisation, can be mitigated by political connections. Offenders may be shielded from sanctions by their political connections, which increases the likelihood of fraudulent behaviour. Sudirman et al., (2023) have discovered that political connection can help to moderate need, greed, financial reporting fraud exposure. However, the findings also found that political connections cannot help to control the possibility for financial fraud in businesses (Sudirman et al., 2023). Besides,

previous studies also discovered that politically connected director's overturns and overrule the CEO's capacity to deliver a credible and accurate financial report. The moderating influence of political connections on the CEO variables could lead to decrease in earnings quality (Sani, Latif, & Al-dhamari, 2020).

In conclusion, political connections play a crucial role in fraudulent financial reporting by providing firms with resources, protection, and regulatory leniency, all of which support the manipulation of financial statements while reducing the risk of penalties. These relationships can shape auditor behaviour and modify traditional fraud determinants, ultimately undermining the quality of financial reporting. However, the relationship is complex and context-dependent, with some evidence suggesting that transparency and effective corporate governance can help offset the negative consequences of political connection. The ongoing challenge for policymakers and businesses alike is to ensure that political connections do not distort the financial reporting process or hinder the accountability mechanisms necessary for maintaining market integrity.

### Methodology

The quantitative data analysis have been employed in the process for identifying, choosing, assessing, and synthesising previous studies for examining the relationship between political connections and fraudulent financial reporting (FFR). This method follows the recommendations set by the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) (Bilal, Chen, & Komal, 2018; Shahana, Lavanya, & Bhat, 2023) in guaranteeing transparency, dependability, and rigorousness during the review process. The research setting around political connections and FFR was carefully defined using a Systematic Literature Review (SLR). This method not only assists in identifying study gaps but also synthesized available data and provides guidelines for next studies (Siddaway, Wood, & Hedges, 2019). Unlike narrative reviews, SLRs offer the required structure to guarantee the validity and dependability of the produced conclusions by following a clear, repeatable, and scientific technique.

### Data Sources and Search Methodology

Two prominent and esteemed academic databases which are Scopus and Web of Science (WOS) were chosen for the literature search because of their extensive coverage of peer-reviewed articles in the fields of business, economics, accounting, and political science. The search was conducted in March 2025, encompassing studies published until that date. A systematic search string was constructed employing Boolean operators to combine relevant keywords:

*("political connection" OR "government affiliation" OR "state ownership") AND ("fraudulent financial reporting" OR "earnings manipulation" OR "accounting fraud" OR "financial misrepresentation")*

Search filters were implemented to encompass solely:

- i. Articles published in peer-reviewed journals
- ii. English Publications
- iii. Research published from 2000 to 2025 to analyse contemporary corporate governance dynamics

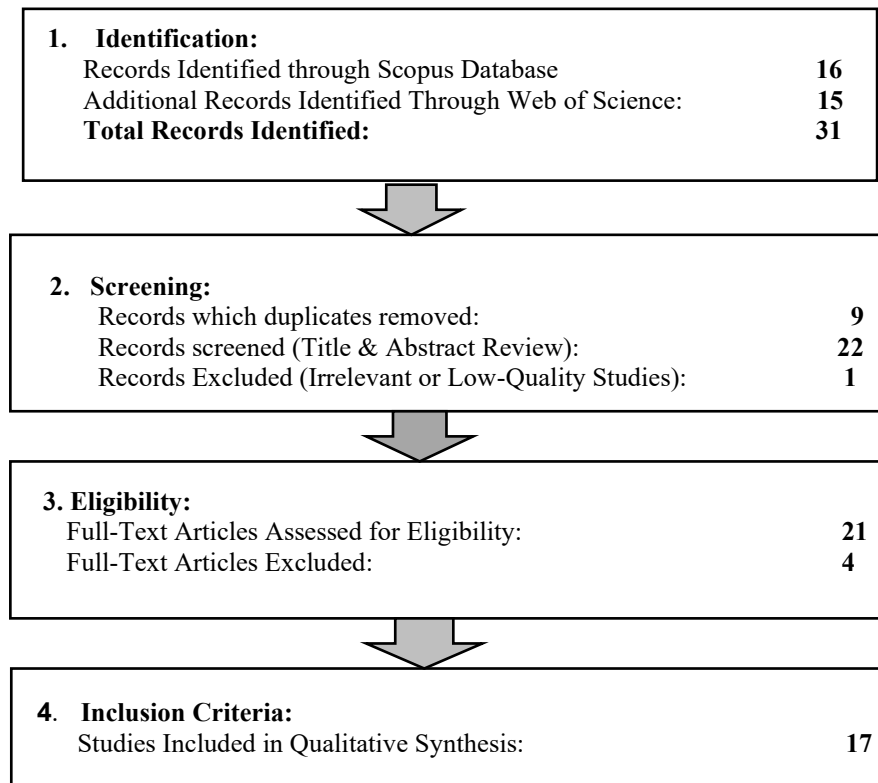
## Criteria for Inclusion and Exclusion

**Table 2: The Inclusion and Exclusion Criteria**

| Inclusion Criteria                                                        | Exclusion Criteria                                                  |
|---------------------------------------------------------------------------|---------------------------------------------------------------------|
| Empirical or theoretical studies focused on political connections and FFR | Books, conference papers, editorials, or non-peer-reviewed articles |
| Articles written in English                                               | Non-English publications                                            |
| Studies published in Scopus or WOS-indexed journals                       | Articles lacking relevance to both political connections and FFR    |

### Evaluation and Selection Procedure

The selection procedure adhered to the PRISMA 2020 flow diagram. The procedure encompassed:



**Figure 1: Flowchart of PRISMA**

### ***Data Extraction and Coding***

A data extraction table was employed to methodically document essential information from each investigation, encompassing:

- i. Authors and publication year
- ii. Geographical area of research
- iii. Objectives of the research
- iv. Theoretical framework
- v. Methodology (e.g., quantitative, qualitative, or mixed methods)
- vi. Essential variables and metrics
- vii. Principal results and conclusions

The retrieved data was manually categorised and thematically organised using Excel to enhance synthesis and pattern identification across investigation. Besides, a qualitative thematic synthesis technique was employed because of the methodological and contextual variation present in the included research. This facilitated the synthesis of data from both qualitative and quantitative research, while explaining overarching themes, conflicts, and contextual dependencies.

## Findings and Discussion

**Table 3: Summary of Systematic Literature Review**

| Bil. | Author(s) and Year         | Title                                                                                        | Objectives                                                                                                                                                         | Theoretical Framework                        | Methodology                                                                                 | Variables and Metrics                                | Key Results and Conclusions                                                                                                                                                                                                                                              |
|------|----------------------------|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|---------------------------------------------------------------------------------------------|------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1    | (Attia & Mehafdi, 2023)    | Corporate Governance and Real Earnings Management in Emerging Economies: Evidence from Egypt | To investigate in the framework of an emerging market economy the link between corporate governance (CG) characteristics and real-based earnings management (REM). | Institutional Theory                         | The study employs a sample of 78 Egyptian Exchange (EGX)-listed companies from 2008 to 2017 | Board characteristics, audit quality, FFR indicators | The findings reveal that managerial and family ownership are negatively and significantly correlated with REM proxies, except for the ABCFO measure. By contrast, government and institutional ownership exhibit contrasting results, depending on the REM proxies used. |
| 2    | (Doan, Lin, & Doong, 2020) | Government Ownership and Income Smoothing: International Evidence from Banks                 | to review how income smoothing of commercial banks relates to government ownership.                                                                                | Agency Theory and Positive Accounting Theory | Quantitative                                                                                | Government ownership, Income smothing                | Banks with more state-controlled shareholders located in developing countries tend to have more incentives to smooth income.<br><br>Besides, income smoothing behavior of state-controlled banks is driven by                                                            |



political objectives,

|   |                                       |                                                                                                                 |                                                                                                                                                                                                                                 |                       |              |                                                                                                           |                                                                                                                               |
|---|---------------------------------------|-----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|--------------|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| 3 | Garanina T. (2024)                    | Earnings Management and Firm Value: The Role of Corporate Social Responsibility Disclosure and State Ownership  | Using the moderating influence of the missing elements of corporate social responsibility (CSR) disclosure and state ownership in Russian companies, investigates the relationship between earnings management and firms' value | Political Economy     | Quantitative | CSR, market value, earnings management, SOE status                                                        | CSR influenced by political affiliation and ownership                                                                         |
| 4 | (Hasnan, Rahman, & Mahenthiran, 2014) | Management Motive, Weak Governance, Earnings Management, and Fraudulent Financial Reporting: Malaysian Evidence | This paper looks at two concerns about false financial reporting in Malaysia.                                                                                                                                                   | Fraud Triangle Theory | Quantitative | party transactions, higher number of prior violations, and higher proportion of founders on board and FFR | Foreign ownership and political connections were not significantly related to fraud occurrence.                               |
| 5 | (Naldo & Widuri, 2023)                | Fraudulent Financial Reporting: Testing the Fraud Hexagon Model                                                 | apply the fraud hexagon model to examine the elements likely to affect false financial reporting                                                                                                                                | Fraud Hexagon Theory  | Quantitative | Fraud hexagon elements                                                                                    | Financial target, change in BOD, and CEO's education affect fraudulent financial reporting. While political connection do not |



affect fraudulent  
financial reporting.

|   |                           |                                                                                                     |                              |                                                                                                                                                                                                                |                       |              |                                                                |                                                                                                                                                                                                                                                                             |
|---|---------------------------|-----------------------------------------------------------------------------------------------------|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|--------------|----------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6 | (Ren, Zhong, & Wan, 2022) | Analyst and Fraud: Evidence from China                                                              | Forecasts Corporate Evidence | Examines, from a panoramic standpoint, how analyst projections affect corporate fraud.                                                                                                                         | Fraud triangle theory | Quantitative | Analyst forecast, corporate fraud                              | Short-term performance pressure caused by negative forecast gaps is significantly positively correlated with firms' possibility for fraudulent behavior. However, this positive correlation is weaker in state-owned enterprises than in their non-state-owned counterparts |
| 7 | (Sani et al., 2020)       | CEO Discretion, Political Connections, and Real Earnings Management: Evidence from Emerging Markets | Discretion, and Earnings     | This paper investigates whether the political relationship of board members influences CEO discretion to guarantee accurate and reliable financial reports as well as the impact of CEO discretion on the real | Upper Echelons Theory | Quantitative | CEO discretion, political connection, real earnings management | CEO Discretion reduces the tendency of real earnings management and improve the reporting quality. However, the CEO's discretion to provide reliable financial reports and to reduce the likely earnings                                                                    |

|   |                                                      |                                                                                                         |                                                                                                                                                                    |                             |              |                                                  |                                                                                                                                                                                                                                                                     |
|---|------------------------------------------------------|---------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|--------------|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|   |                                                      |                                                                                                         | earnings management practices in Nigeria                                                                                                                           |                             |              |                                                  | manipulation is overturn by the presence of politically connected directors.                                                                                                                                                                                        |
| 8 | Sani A.A.;<br>Latif R.A.;<br>Al-Dhamari<br>R. (2021) | Board Monitoring and Real Earnings Management in Nigeria: The Role of Political Connections             | This study examines the influence of corporate board monitoring on real earnings management practice in Nigeria                                                    | Corporate Governance Theory | Quantitative | Board monitoring, political connection, REM      | Politically connected directors have significant positive influence on real earnings manipulations. besides, the interaction of politically connected directors with the board weakened the board monitoring power, and thus led to breach of corporate governance. |
| 9 | (Sari,<br>Sihombing, &<br>Utaminingsih,<br>2023)     | Audit Committee, Independent Commissioners, and Fraudulent Financial Reporting: Evidence from Indonesia | The objective of this paper is to investigate the impact of the fraud hexagon factor on fraudulent financial reporting and the function of the audit committee and | Fraud Hexagon Theory        | Quantitative | Fraud dimensions, audit committee, commissioners | Audit committee strength moderates fraud risk from political ties                                                                                                                                                                                                   |

|    |                                        |                                                                                         |                                                                                                |                                                                             |              |                                                          |                                                                                                                                                                                                                                      |  |
|----|----------------------------------------|-----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|--------------|----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
|    |                                        |                                                                                         |                                                                                                | independent<br>commissioners in so<br>reducing this<br>influence connection |              |                                                          |                                                                                                                                                                                                                                      |  |
| 10 | (Shah, Rashid, Malik, & Shahzad, 2020) | Ownership Structure and Financial Reporting Quality: Evidence from South Asia           | This paper investigates if the financial reporting quality is improved by ownership structure. | Agency Theory                                                               | Quantitative | Ownership structure, financial reporting, governance     | State ownership and family ownership are positively associated to real earnings manipulation, which suggest that family and state ownerships engage in real earnings manipulation and thus reducing the financial reporting quality. |  |
| 11 | Stuart Wang (2016)                     | T.; Who Cheats? Who Invests? Political Connections, Fraud, and Venture Capital in China | Find out how often 467 private Chinese technology companies report fraud.                      | Institutional Theory                                                        | Quantitative | Firm type, political interference, earnings manipulation | politically connected companies are approximately 18 percent more likely to commit fraud and those with venture capital backing are 19 percent more likely to do so                                                                  |  |
| 12 | (Sudirman et al., 2023)                | Political Connections and Fraudulent                                                    | utilising the distribution of political ties as a                                              | GONE theory                                                                 | Quantitative | Greed, opportunity, need, exposes,                       | The results of this research show that greed, opportunity,                                                                                                                                                                           |  |

|    |             |       |                                                                                  |                                                                                                                                                                                               |                             |              |                                        |                                                                                                                                                                                                                                                                                                                                        |
|----|-------------|-------|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|--------------|----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|    |             |       | Financial Reporting: The Moderating Role of the GONE Theory                      | moderating factor, examine the impact of greed, opportunity, necessity, exposes on fraudulence financial reporting                                                                            |                             |              | political connections and FFR          | need, exposes, political connections have a significant positive effect on fraudulence financial reporting. Political connection is able to moderate greed, need, exposes to fraudulence financial reporting. Furthermore, political connections are unable to moderate the opportunity for fraudulence financial reporting in company |
| 13 | Tsai (2012) | B.-H. | Political Connections and Earnings Management in Chinese State-Owned Enterprises | investigate if Chinese SOEs with closer political ties which is, executives or government-linked board members engage in more aggressive earnings manipulation than less-connected companies. | Political Connection Theory | Quantitative | State ownership, Earnings manipulation | The study suggests that firms with higher state ownership are less likely to manipulate earnings before rights issues, possibly due to the government's strong influence over authorizing banks.                                                                                                                                       |
| 14 | (Y. Wang et |       | Does the form of                                                                 | This study                                                                                                                                                                                    | Signaling                   | Quantitative | Mutual fund                            | Mutual fund                                                                                                                                                                                                                                                                                                                            |

|    |                                      |                                                                                                 |                                                                                                                                                                                                                                                      |                       |              |                                                                      |                                                                                                                                                                                                                                    |
|----|--------------------------------------|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|--------------|----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|    | al., 2024)                           | state ownership and political connections influence the incidence of financial statement fraud? | investigates between 2007 and 2014 the link between mutual funds and accounting fraud.                                                                                                                                                               | Theory                |              | investment, accounting irregularities                                | investment linked to fraud control effectiveness. Besides, mutual funds cannot effectively detect fraud in state-owned firms                                                                                                       |
| 15 | (Z. Wang, Chen, Chin, & Zheng, 2017) | Managerial Ability, Political Connections, and Financial Reporting Fraud in China               | To investigate in China the relationships among managerial skill, political contacts, and enforcement actions for financial reporting misrepresentation—hereafter financial reporting fraud                                                          | Fraud triangle theory | Quantitative | Managerial ability, political connections, financial reporting fraud | Political connections appear to significantly increase the likelihood of fraudulent reporting, especially in firms where managers are skilled at navigating the political landscape.                                               |
| 16 | (Yen, 2013)                          | What causes fraudulent financial reporting? Evidence based on H shares                          | This article looks at falsified financial reporting (FFR) in China-based companies listed on the Hong Kong Stock Exchange (called H shares), where Chinese government officials have significant influence on audit quality and corporate governance | Agency Theory         | Quantitative | Audit quality, ownership structure, FFR proxies                      | Managerial incentives, such as pressure to meet performance targets and compensation tied to short-term results, significantly contribute to financial fraud. Weak corporate governance, including ineffective board oversight and |

|    |                    |                                                                                          |                                                                                                                                                                                               |                   |              |                                                            |                                                                                                                                                                                                                                                                                                                                                |
|----|--------------------|------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--------------|------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|    |                    |                                                                                          | and high degree of involvement.                                                                                                                                                               |                   |              |                                                            | concentrated ownership, also plays a major role. Political connections and state ownership provide additional protection for managers, reducing accountability                                                                                                                                                                                 |
| 17 | (Yu & Zheng, 2020) | Why do investors not punish politically connected firms for financial misrepresentation? | to look at whether the political links of Chinese listed companies influence the market response to allegations of financial misrepresentation under investigation by the regulatory agencies | Legitimacy Theory | Quantitative | Political connection, investor response, misrepresentation | Financial dishonesty of politically connected companies generates minimal market reaction. Politically connected companies use distorted financial data to get legitimacy and government benefits. They also more likely to increase their bank loans in the years following their financial dishonesty than companies without political ties. |

A comprehensive review of 17 articles retrieved from Scopus and Web of Science reveals consistent evidence that political connections significantly influence the likelihood of fraudulent financial reporting (FFR), particularly in emerging economies with weak institutional enforcement. This synthesis integrates the key theoretical, empirical, and contextual insights drawn from both databases to provide a holistic understanding of the political-FFR nexus.

### ***Theoretical Foundations***

The studies are predominantly underpinned by theories of fraud and corporate governance. Fraud-specific frameworks such as the Fraud Triangle, Fraud Hexagon, and the recently introduced Fraud Gone Model provide multidimensional explanations for financial misreporting. These models account for factors such as opportunity, pressure, rationalization, collusion, capability, and arrogance, which are often exacerbated by political affiliations. For instance, previous studies applied the Fraud Hexagon models to examine the role of political pressure in shaping fraudulent practices (Achmad, Ghozali, Helmina, Hapsari, & Pamungkas, 2023; Sari et al., 2023).

Concurrently, agency theory, institutional theory, and corporate governance theory are extensively employed to explain how politically connected boards create agency conflicts, reduce transparency, and impair internal monitoring (Doan et al., 2020; Yen, 2013). Previous studies emphasize that political affiliations often weaken the effectiveness of external auditors and internal governance mechanisms, facilitating earnings manipulation (Yen, 2013; Yu & Zheng, 2020).

### ***Geographical and Institutional Context***

Numerous studies conducted in developing countries repeatedly reveal that companies with politically connected board members are more likely to practise profits management, especially in cases of poor audit enforcement and governance systems. Political ties compromise both internal controls such as board monitoring, CEO discretion and external oversight such as audit quality, regulatory enforcement in nations like China and Nigeria. Studies by (Sani et al., 2020) and (Zhi Wang, Chen, Chin, & Zheng, 2017) for instance show that political links on the board greatly raise the possibility of actual earnings manipulation and financial crime. Likewise, others studies show how politically linked businesses face little legal repercussions and usually gain from their ties, hence supporting misreporting (Yen, 2013; Yu & Zheng, 2020). Thus, it can be concluded that political influence generally reduces institutional responsibility and encourages managerial opportunism in financial reporting.

### ***Role of Governance Mechanisms***

From the governance mechanism perspective, the presence of politically linked board members sometimes compromises the efficiency of both internal and outside governance systems, therefore enabling earnings management. Studies by (Sani et al., 2020) reveal that politically connected directors reduced board monitoring power and facilitated real earnings manipulation, so weakening internal political ties, board independence, CEO discretion, and the function of audit committees. Besides, Yu & Zheng (2020) and Yen (2013) who discovered that politically related companies incur less punishment for financial misbehaviour show externally that these companies experience less strict audit enforcement and regulatory scrutiny. Politically connected managers, according to Z. Wang et al., (2017), also exploit weak enforcement policies to engage fraud. These results point to the fact that in politically



affected settings, governance systems lose their efficacy, therefore raising the danger of fraudulent financial reporting.

### ***Methodological Approaches and Core Variables***

Most of the 17 publications evaluated use quantitative methods to study political relationships, governance systems, and earnings management. Most studies use archival firm-level data from financial statements, regulatory disclosures, and stock exchanges in emerging markets, particularly China (Zhi Wang et al., 2017; Yen, 2013; Yu & Zheng, 2020), Malaysia (Hasnan et al., 2014), Nigeria (Sani et al., 2020), and Egypt. Regression models, panel data analysis, and probit models are used to test relationships between governance attributes (e.g., political connections, ownership structures, board characteristics) and earnings manipulation indicators like real earnings management (REM), accrual-based earnings management, and fraudulent financial reporting (Doan et al., 2020). Most research are single-country assessments, although Doan et al., (2020) provide cross-country viewpoints to improve generalisability. The methodological techniques support the goal of studying how governance and politics affect enterprises' financial reporting.

### ***Research Gaps and Future Directions***

Most studies in this review have employed quantitative approaches such as historical firm-level data to examine the relationship between political connections and FFR in developing countries including China, Malaysia, Nigeria, and Egypt, existing studies on political connections, governance, and earnings management have made major contributions. Still, there are some important gaps. Studies have, theoretically, mostly relied on agency theory, excluding alternative frameworks including institutional theory, resource dependence theory, and stakeholder theory. Methodologically, the emphasis has been mostly on single-country, cross-sectional studies employing quantitative data, therefore excluding qualitative insights, cross-country comparisons, and dynamic changes in governance institutions. Research has also focused mostly on publicly traded companies, paying little attention to SMEs, state-owned businesses, or more recent kinds of earnings manipulation such as categorisation shifting, ESG-related disclosures.

Thus, future studies should use multi-theoretical approaches combining agency theory with institutional, behavioural, and stakeholder viewpoints to better explain the political-governance-earnings management nexus and thereby progress this topic. Methodological diversification such as, mixed-methods designs by combining archive data with interviews or case studies, longitudinal research, and cross-country comparisons would increase generalisability and depth. In addition, future studies should investigate new strategies for manipulation, the function of digital governance such as artificial intelligence in auditing, and the effects of legislative changes such as adoption of IFRs, anti-corruption laws.

Finally, the direction of future studies should extend the scope by including understudied areas such as Latin America, Eastern Europe and firm types such as SMEs, family-owned companies would offer a more complete knowledge of how political and governance dynamics shape financial reporting across many settings. Through filling in these gaps, next studies can provide more concrete policy recommendations for practitioners and authorities as well as more comprehensive theoretical insights.

## Conclusion

This systematic literature review (SLR) provides valuable insights into the complicated relationship between political connections and fraudulent financial reporting (FFR). The analysis of the existing body of research reveals that political connections can significantly influence corporate governance, financial transparency, and the propensity for fraudulent financial activities. Specifically, politically connected firms often benefit from preferential access to resources, regulatory leniency, and reduced scrutiny, which may inadvertently foster an environment conducive to FFR. However, the findings also indicate that the impact of political connections on FFR is context-dependent and varies across different institutional and legal environments. In some cases, political affiliations might reduce the incentives for financial misreporting by increasing governmental oversight and regulatory intervention, particularly in countries with less developed legal systems. Conversely, in more developed economies or under weaker governance structures, political connections can worsen the risk of fraudulent behavior by offering protection to executives, enabling them to manipulate financial statements without fear of significant consequences.

Despite the valuable contributions of the reviewed studies, several gaps remain in the literature. Future research could further explore the moderating role of corporate governance mechanisms, such as audit committees and board independence, in mitigating the risks associated with political connections. Additionally, understanding how different types of political connection such as those at the local versus national level which could affect financial reporting practices could provide more nuanced insights into the dynamics of corporate fraud. In conclusion, the relationship between political connections and FFR is complex and multifaceted, with both positive and negative implications for corporate governance and financial integrity. By enhancing the transparency and robustness of regulatory frameworks and promoting stronger corporate governance practices, the adverse effects of political connections on financial reporting can be mitigated, thus safeguarding investor confidence and market stability.

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