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CEO Capability and CEO Arrogance: Their Relationship with Fraudulent Financial Statement Indication

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Abstract

This study aims to see the effect of the CEO Capabilities and CEO Arrogance to fraudulent financial statements indication. The study used a sample of all manufacturing companies from 2017 to 2019. In accordance with the sample selection, there are 162 manufacturing companies that meet the sample criteria. In this study using multiple linear regression test. This study uses secondary data for the 2017-2019 annual report.

Based on the results that have been tested, CEO capability as a respected party (CEO Age), CEO capability as the person who knows the most about the company (CEO Tenure) and CEO arrogance as a person who has political connections (CEO Political Connection) have an influence on the indication of fraudulent financial statements. Furthermore, the hypothesis of CEO Capability in Accounting/finance knowledge (CEO Education), CEO arrogance in the form of narcissism (CEO PIC) and CEO arrogance as company founder (Founder CEO) have no influence on indications of fraudulent financial statements.

Keywords: CEO Capability, CEO Arrogance, Fraudulent Financial Statement

1. Background

Financial statements are official information issued by companies to describe the company's performance in a certain period of time. Financial Statements is published formally, so that the Financial Statements become one of the main sources of information in decision making, especially for external parties of the company. Seeing the importance of the information presented in the financial statements, the company tries to present the best possible financial statement information, to attract stakeholders. The main thing in measuring a company's performance is assessed from the profit information presented in the financial statements of a company. The importance of presenting financial statements for the survival of the company makes managers motivated to improve company performance so that the company's existence is maintained, but there are some cases where actions that are not in accordance with the rules are taken by management to display satisfactory financial statements.

Data from the Association of Certified Fraud Examiners (ACFE, 2020) shows that fraud cases in Indonesia ranked first in the Asia Pacific region with 36 cases, followed by China (33 cases) and Australia (29 cases). ACFE (2020) explained that cases of fraud in the form of Fraudulent Financial Statements were in 5th place, namely 14%, cases of fraud in the form of corruption were ranked first at 51%. Based on ACFE 2020 data, fraud in the form of Fraudulent Financial Statements ranked first in losses, which was an average of 8,693,000 USD, very high when compared to losses due to corruption of $3,039,000 USD. From 2504 cases in 125 countries, Financial Statement Fraud is generally the rarest but the costliest.

Positive Accounting Theory explains the relationship between management and company owners, managers with the government, and managers with creditors, so that this is what makes a manager make changes to accounting policies. Watts dan Zimmerman, (1986) revealed that there are three motivations for managers to make changes to accounting policies that are beneficial for managers. First, Bonus Contract In this case, a manager will be given a target by the owner, which target has been determined by the owner of the company. This makes the manager and the owner of the company make a bonus contract. Where if the manager can achieve the target desired by the owner of the company, then the manager will get a high bonus, but on the contrary if the manager is not able to achieve the target desired by the owner of the company, then the manager will not get a bonus. Bonus contracts between managers and owners, will have an impact on the possibility of changes in accounting policies due to managers' decisions. If the manager is not able to achieve the target and is forced to change the financial statements to increase profits without complying with Financial Accounting Standards, there will be Fraudulent Financial Statements. Second, Debt Contracts, this relates to managers and creditors, for example like banks, in terms of lending money, the bank will see how the state of a company's financial statements first. This can motivate managers to beautify financial statements, so that managers do not lose their creditors. Third, Political Costs, high political costs, make managers have to lower their profits so that the political costs they get are not getting bigger. This is also related to the existence of tax avoidance for company managers.

The Fraud Model was first proposed by Cressey (1953), where the Fraud Model was first known as the Fraud Triangle. The Fraud Triangle introduces the factors that cause someone to commit fraud, namely, Opportunity which is considered that someone is cheating, it is due to opportunity. Opportunities can come from a lack of internal control; someone will be freer to commit fraud. Pressure, where a person will commit fraud if he feels that there is pressure within him, for example such as economic pressure. Rationalization a situation where someone has made a mistake but considers himself right. Rationalization is a form of defence for mistakes that have been made, so that people are willing to accept them.

Wolfe dan Hermanson (2004) propose Fraud Diamond, which adds one factor that causes someone to commit fraud, namely Capability, which is fraud committed by someone, because they have the ability or expertise to commit the fraud. Marks (2012) suggested the idea of the Pentagon Fraud. Where this Pentagon Fraud is the development of the Fraud Triangle, and Fraud Diamond. The Fraud Pentagon still uses the Pressure, Opportunity, Rationalization, Capability factors, adding one more factor, namely Arrogance. In this case Arrogance is assessed as a condition where a person feels better, smarter, more skilled, or superior to others, and will not let anyone question the decisions he makes.

The addition of the Arrogance factor shows the involvement of top management such as the company's CEO, so it can be concluded that the Fraud Pentagon discusses the factors of fraud at all levels within the company. Fraud triangle only focuses on the problem of fraud at the individual level, while this Fraud Pentagon will discuss more broadly, which schemes on fraud involve manipulation by people who have positions, or powers such as CEO or CFO. Pentagon fraud can also be said to be a Corporate Governance problems (Alekseeva, Adi, Baridwan, Mardiati, & Faculty, 2018; Júnior & Martins, 2019; Marzuki et al., 2019; Sun, Kent, Qi, & Wang, 2017). According to the ACFE 2020 Report for Nations, "The higher the level of authority of the perpetrator, the greater the fraud loss incurred."

Downing (2015), states that executives have the power and authority (capability) to act according to their wishes and intentionally or cannot behave badly, make bad decisions, or commit direct fraud by using the authority they have. Some of the bad things those corporate executives can do with the authority they have are cancelling internal controls, spending company money on things that have no business purpose, hiring friends or family who don't have appropriate job specifications and giving big salaries, falsifying documents and lied to the auditors. The executive is at the top of the corporate authority. According to Hall (2013) internal control does not apply to executives within the company.

Until now, the Fraud Triangle still describes conditions that can cause most employees to commit fraud. However, the Fraud pentagon illustrates additional factors unique to top management namely Capability and Arrogance. Executives do not need opportunities to commit fraud, they can create them.

Previous research examining the Fraud Model and its relationship to Fraudulent Financial Statements has been carried out by Christian, Basri dan Arafah (2019), Indarto dan Ghozali (2016), Pamungkas dan Utomo (2018), Simbolon et al. (2019), dan Triyanto (2019). Apriliana dan Agustina (2017) examines the relationship between five fraud factors and the possibility of fraud in financial statements in companies that have received corporate governance awards and the results show that the ability of the Board of Directors and the Arrogance of the Board of Directors do not affect the possibility of fraudulent financial statements.

This study aims to examine the relationship between CEO Capabilities (CEO Capabilities as a respected party, CEO capability as the person who knows the most about the company CEO Capability in Accounting/finance knowledge) and CEO Arrogance (CEO arrogance as a person who has political connections CEO arrogance in the form of narcissism and CEO arrogance as company founder). the tendency of fraudulent financial statements. This study does not discuss the Board of Commissioners because in Indonesia, the Board of Commissioners can only have the authority to perform a supervisory function. The board of commissioners may not participate in making operational decisions. In the event that the board of commissioners makes decisions regarding matters stipulated in the articles of association or laws and regulations, these decisions are made in their function as supervisors, so that operational decisions remain the responsibility of the CEO as the leader of the board of directors. The existing authority on the board of commissioners is still carried out in its function as supervisor and advisor. This research only focuses on the CEO. This study uses the variables in the fraud triangle as control variables, because previous studies have been shown to be associated with fraudulent financial statements. Apriliana dan Agustina (2017) did not find a relationship between the Capability of the Board of Directors and the Arrogance of the Board of Directors with fraudulent financial statements in companies that received corporate governance awards. Hidayah dan Saptarini (2019) did not find a relationship between the Capability of the Board of Directors and the Arrogance of the Board of Directors with fraudulent financial statements at the Bank. Therefore, in this study, this study will examine non-financial companies that do not have Good Corporate Governance.

2. Literature Review

Fraud is an intentional act by one or more individuals. Fraud is an act committed by one or more persons which is carried out for the benefit of oneself, or another party who supports the fraudulent act. Cheating is done for one's own benefit, or unfairly, or violates the law. Fraud can be found in corporate organizations or in government. In this case, fraud is a fraud committed by parties in a company, whether employees or leaders of a company, where this right results in harming the company, both financially and non-financially.

Financial statement fraud is scheme in which an employee intentionally causes a material misstatement or omission of information in an organization's financial statements (e.g. recording fictitious revenues, understating reported expenses, or artificially inflating reported assets)

2.1 Capability

Fraud will not occur without the right people with the right abilities to commit fraud in detail. Fraud will not occur without people who have special abilities. This we can define that, people who can commit fraud in financial statements are those who have the ability in the field of accounting, as well as experience in the field of accounting. In this case it is also explained that opportunities can bring opportunities in fraudulent actions, rationalization can make someone interested in committing fraud, but if someone does not have the ability to analyse the opportunity then the opportunity will be in vain.

The ability of fraudsters to penetrate the internal controls in their companies, develop sophisticated embezzlement strategies, and be able to control them, will bring benefits for themselves.

1. CEO capability as a respected party (CEO Age)
   According to ACFE (2020) perpetrators of fraud in financial statements are usually carried out by those who are 36-45 years old, the data obtained is (47%). Furthermore, fraud is carried out by those who are 46-55 years old. This explains that the perpetrators of fraud have reached a very productive position.
2. CEO capability as the person who knows the most about the company (CEO Tenure)
   ACFE (2020) explains that most of the fraud perpetrators are those who have worked for more than 10 years. Based on ACFE, that the longer the tenure, the more potential to commit fraud. This is due to the existence of experience and the knowledge of gaps for opportunities to commit fraud. In addition to the position occupied, a longer working period tends to make someone commit fraud, because they feel they are in a comfortable position to commit fraud. Fraud perpetrators with long tenures may feel that they have not committed fraud, or have committed the truth for their actions, where they feel that what they are doing is a form of reciprocity, for their services or length of service to the company, so that what they do is a reasonableness.
3. CEO Capability in Accounting/finance knowledge (CEO Education)
   Education is one form of things that are important to hone one's abilities. According to the Indonesian Dictionary (KBBI) education is a learning process for each individual to achieve higher knowledge and understanding of certain and specific objects. Companies in Indonesia, as we know, someone will get a high position, if that person has a high level of education as well. For example, being a manager must have expertise in his own field. But does higher education guarantee someone to behave honestly? The ACFE Survey (2020) explains that the most fraud perpetrators in Indonesia are those who have a bachelor's degree and above. This shows that even if someone has a high level of education, it does not

ensure someone to behave honestly. This also explains that if someone has a high education, a person's ability to commit fraud will also be smarter.

2.2 Arrogance

Arrogance is the trait of being arrogant, or haughty. Where a person feels that he is capable of doing everything. This arrogant nature is usually owned by a manager, where a manager will feel that they have power over the company, so they are able to do anything. According Omukaga (2019) dan Rustiarini, Sutrisno, Nurkholis, dan Andayani (2019), arrogance is the nature of superiority over the rights they have, and they feel that internal control and company policies will not apply to them.

1. The arrogance of the CEO who has political connections (CEO Political Connection)
   Mohamed Yusof, Ahmad Khair, dan Simon (2015) conducted a study to measure whether by assessing whether there is a CEO working in a company who is also a politician. In general, a CEO who is also a politician will have many connections, which can help a CEO to run his company's business. With the connections that the CEO has, it will lead to arrogance, or arrogance. This arrogant nature will result in the CEO justifying any means of committing fraud in the financial statements, and this will lead to the CEO justifying any fraud committed, this is because they feel, if they have the power and position in the company, so that policies, or threats that exist in the company will not affect, or loose for those who have positions. This is the same as in the inverted pyramidal, where internal control will be more stringent for those who do not have positions in the company, such as employees. As for those who have positions, and power in the company, the internal control will be looser. This causes fraud to occur in those who have power, and positions in the company.
2. CEO arrogance in the form of narcissism (CEO Pic)
   CEO Narcissism can be measured by the number of CEO photos in the annual report.
3. CEO arrogance as company founder (Founder CEO)
   The founder of a company is someone who has a strong commitment to stronger against the company than with other parties. This company refers to which first person, this person is people who start or come up with a business idea.

2.3 Hipotesis

Capability referred to as skill, where someone who commits fraud in financial statements is those who do have the ability in the field of accounting, so that they are able to change financial statements that are not in accordance with applicable accounting standards. Fraud can occur because of someone's expertise to develop their strategies, so that fraud is not known by anyone. The same thing is also found by Faradiza (2019) which states that capability has an effect on financial statements.
According to Marks (2012) in Apriliana and Agustina (2017), capability is a person's expertise to control social situations, which can bring benefits for himself CEO Age according to ACFE (2020) explains that someone who commits fraud is usually those who have an age of 36-45 years, because it is said that This age is a productive age for a person. In Indonesia, which still holds eastern customs, the older a person is, the younger they must respect that person. From this statement, the development of the hypothesis is as follows:

H1: The CEO's capability as a respected party is related to fraudulent financial statements indication.
CEO Tenure, or term of office. According to ACFE (2020) explains that a fraudster is usually those who have served in the company for more than 10 years. This is because, the longer a person has served in a company, it is estimated that the person already understands very well about the company, which means he can find out good opportunities to be able to commit fraud. From this statement, the development of the hypothesis is as follows:

H2: CEO capability as the person who knows the most about the company is related to fraudulent financial statements indication.
According to ACFE (2020) it is explained that fraudsters are not those who do not have education, in fact a fraudster is those who have higher education. This is because the higher the level of education, the ability to commit fraud will be difficult to detect. For example, a fraudster in financial statements, are those who may

be graduates of accounting, so he can know how to manipulate financial statement data. From this statement, the development of the hypothesis is as follows:

H3: CEO Capability in Accounting/finance knowledge is related to fraudulent financial statements indication.

Arrogance is an attitude of pride and arrogance. Where this trait is a trait that arises because of selfishness. Arrogance has an influence on financial statement fraud, this is due to the superiority of rights, and power possessed, so that he feels that internal control has no effect on him. Apriliana and Agustina (2017) explained that political relations can foster a person's arrogance in their power, this makes a person take advantage of extensive connections to justify all kinds of ways, so that mistakes or fraud he commits are covered. In this case, political relations are those who have political connections such as government. From this statement, the development of the hypothesis is as follows:

H4: CEO arrogance as a person who has political connections is related to fraudulent financial statements indication.

Mohamed Yusof et al. (2015) state that arrogant nature can be seen from how many photos of CEOs are in the company's annual report, if there are more photos in the company's annual report, it is said that the arrogant nature of being known by the wider community will also get bigger This is because if someone feels already known by the wider community, then he will also feel that he has the right to do anything. From this statement, the development of the hypothesis is as follows:

H5: CEO arrogance in the form of narcissism is related to fraudulent financial statements indication.

Founder of director, where a person becomes the founder as well as serves as CEO in a company, it is considered that the founder of the company has a strong commitment to the company, so he will do anything to keep the company running. Called arrogant because, he will feel that the opinion of others is not necessary for him. From this statement, the development of the hypothesis is as follows:

H6: CEO arrogance as company founder is related to fraudulent financial statements indication.

3. Methodology

This study was designed to be carried out with a quantitative approach. This study uses the financial statements of manufacture companies listed on the Indonesia Stock Exchange. The data used are secondary data in the form of data in the 2017-2019 Financial Statements, Annual Report data and data on the website of the organizer of the Corporate Governance award. The sample in this study are companies listed on the Indonesia Stock Exchange 2017-2019 and not companies engaged in finance. The companies studied were companies that did not receive the Corporate Governance award in the 2017-2019 period.

Independent Variables:

1. CEO capability as a respected party (CEO Age)
   To measure the CEO's capability as a respected party, the proxy used is CEO Age, the older the CEO, the more respected and respected. In this study CEO Age is measured by the average age of the CEO.
2. CEO capability as the person who knows the most about the company (CEO Tenure)
   To measure the CEO's capability in getting to know the company, the proxy used is CEO Tenure, the longer the CEO serves in a company, the more he knows and knows the ins and outs of the company. In this study CEO tenure is measured by the CEO tenure.
3. CEO Capability in Accounting/finance knowledge (CEO Education)
   To measure the CEO's capability in accounting knowledge, the proxy used is CEO education. CEO education is measured by a value of 1 for CEOs who have a high school / vocational education, a value of 2 for CEOs who have an undergraduate education level majoring outside Economics, a value of 3 for CEOs who have an undergraduate education majoring in Economics, and a value of 4 for CEOs who have an education level S2 majoring in Economics.
4. CEO arrogance as a person who has political connections (CEO Political Connection)

To measure the arrogance of CEOs who have political connections, the proxy used is CEO political connections. CEO political connection is measured by 1 CEO board with political connections and 0 CEO board without political connections.

5. CEO arrogance in the form of narcissism (CEO PIC)
   To measure CEO arrogance in the form of narcissism, the proxy used is CEO Picture. CEO Picture is measured by the number of photos containing the CEO.
6. CEO arrogance as company founder (Founder CEO)
   To measure CEO arrogance as a company founder, the proxy used is CEO Founder. CEO Founder measured the dummy variable, namely 1 if there is a CEO who is the founder, and 0 if there is no CEO who is the founder.

Dependent Variable:
In this study, the dependent variable is the possibility of the company making a fraudulent financial statement, in which the fraudulent financial statement will be proxied using the Beneish M-Score. If the value is $\leq$ -2.22 then it does not have an indication of fraud. Here's the formula for the Beneish M-score:
M-Score = -4,84 + 0,920DSRI + 0,528GMI + 0,404AQI +0.892SGI + 0.11DEPI – 0,172SGAI + 4,679TATA – 0.327LEVI

In this study, we used multiple linear regression analysis. The multiple linear regression model used in testing the hypothesis in this study is as follows:

FRAUD = α + β1 CEO Age + β2 CEO Tenure + β3 CEO Education + β4 CEO Politic + β5 CEO Pic + β6 CEO Founder + e

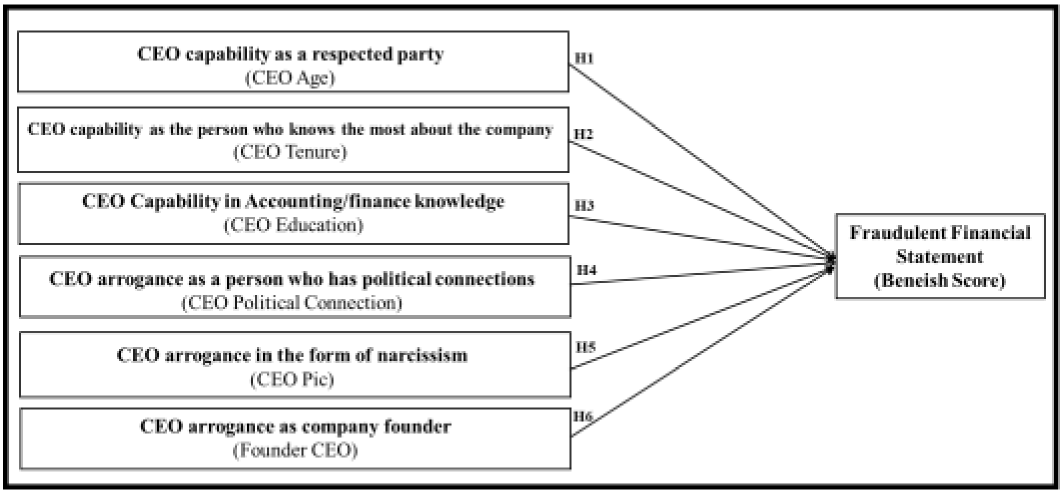

Figure 1. Conceptual Framework

4. Discussion

Based on predetermined criteria, the number of samples in this study was 162 companies. Table of Descriptive Statistics can be seen in Table 1.

Tabel 1. Descriptive Statistics

Dependent Variables	Min	Max	Mean
CEO capability as a respected party (CEO Age)	34	78	58.26
CEO capability as the person who knows the most about the company (CEO Tenure)	1	49	16.85
CEO Capability in Accounting/finance knowledge (CEO Education)	1	4	2.74
CEO arrogance as a person who has political	0	1	0.10

connections (CEO Political Connection)			
CEO arrogance in the form of narcissism (CEO Narcism)	0	43	13.02
CEO arrogance as company founder (Founder CEO)	0	1	0.19
Independen Variables	**Min**	**Max**	**Mean**
Financial Statement Fraud Indication (Beneish)	-18.21	-0.63	-2.43

CEO capability as a respected party (CEO Age) explains how old the CEO was when he served in a company. According to ACFE (2017) explains that someone who usually commits fraud is those aged 36-45 years. The minimum value for the CEO age variable is 34 years and the maximum is 78 years. The average of this variable is 58.26, which means that the average CEO serving in a company is 58 years. CEO capability as the person who knows the most about the company (CEO Tenure) is the length of time the CEO has served in a company, where according to ACFE (2017) explains that fraud is usually carried out by parties who have served for more than 10 years. The minimum value for CEO tenure is 1, and the maximum value for the CEO tenure variable is 49. The average CEO tenure variable is 16.85. Beneish is a measuring tool to see whether a company is indicated by fraudulent financial statements or not, where the condition for this benefit m-score is if -2.22 means that there is no indication of financial statement fraud. The minimum value of the variable indication of financial statement fraud is -18.21, and the maximum value is -0.63. The average indication of financial statement fraud is -2,426.

Tabel 2. Regression Linear Result from SPSS

Variables	Coefficient	Sig
CEO capability as a respected party (CEO Age)	-0.228	0.028
CEO capability as the person who knows the most about the company (CEO Tenure)	0.207	0.033
CEO Capability in Accounting/finance knowledge (CEO Education)	0.063	0.485
CEO arrogance as a person who has political connections (CEO Political Connection)	-0.251	0.003
CEO arrogance in the form of narcissism (CEO PIC)	0.04	0.603
CEO arrogance as company founder (Founder CEO)	-0.022	0.804

FRAUD = -1.789 - 0.228CEOAGE - 0.207CEOTENURE + 0.063CEOEDU-0.251 POLCEO + 0.040 CEOPIC - 0.022FoC + e
The value of CEO age -0.228 can be interpreted if the value of CEO age has increased by one in unit value, the indication of fraudulent financial statements will increase by 0.228. The value of CEO tenure of 0.207 can be interpreted if the value of CEO tenure has increased by one in unit value, the indication of fraudulent financial statements will increase by 0.207. The value of CEO education of 0.063 can be interpreted if the value of CEO education has increased by 1 unit value, the indication of fraudulent financial statements will increase by 0.063The value of political connection -0.251 can be interpreted if the value of political connection has increased by one in unit value, the indication of fraudulent financial statements will increase by -0.251. The value of the CEO picture of 0.040 can be interpreted if the value of the CEO picture has increased by one in the value unit, the indication of a fraudulent financial statement will increase by 0.040.

Capability is the fourth criterion in the fraud pentagon, where a fraudster will not commit fraudulent financial statements, if the person does not have the ability. Capability is represented by three variables, namely CEO capability as a respected party (CEO Age), CEO capability as the person who knows the most about the company (CEO Tenure) and CEO Capability in Accounting/finance knowledge (CEO Education)

Based on the results using the multiple linear regression CEO capability as a respected party has a significant value of 0.028. That is, CEO capability as a respected party has an effect on indications of fraudulent financial statements. This is because CEO age has a significant value less than 0.05 or sig < 0.05.

Rangga (2008) which explains that the age of the CEO has an effect on indications of fraudulent financial statements.

The significant value of the CEO capability as the person who knows the most about the company (CEO Tenure) variable is 0.033, meaning that the CEO capability as the person who knows the most about the company (CEO Tenure) variable has an effect on indications of fraudulent financial statements. This is because the significant value of the CEO tenure variable is less than 0.05, or in the sense of sig < 0.05. The longer a person works in a company, then that person will also be able, and know how to commit fraud. In addition to the position occupied, a longer working period tends to make someone commit fraud, because they feel they are in a comfortable position to commit fraud. Fraud perpetrators with long tenures may feel that they have not committed fraud, or have committed the truth for their actions, where they feel that what they are doing is a form of reciprocity, for their services or length of service to the company, so that what they do is a reasonableness. The length of the CEO's position in the company has an effect on indications of fraudulent financial statements, this is because the longer a person serves in a company, the person will also know the gaps in committing fraud. The longer a person serves, the more capable that person will be to get the opportunity to commit fraud. The longer someone has served in a company, then this person will definitely understand the supervision that exists within the company itself, so it will be easier for him to commit fraud.

The significant value of CEO Capability in Accounting/finance knowledge (CEO Education) is 0.485, which means that the CEO Capability in Accounting/finance knowledge (CEO Education) variable has no effect on indications of fraudulent financial statements. This is because the significant value of CEO education is more than 0.05, or in the sense of sig > 0.05. Someone who has a position in a company is someone who has intelligence. In this case, intelligence is judged by how high the education level of the CEO in the company. CEO education has no effect on indications of fraudulent financial statements. This is because the fraud that occurs within the company, or the perpetrators of fraud in the company are not only from highly educated circles. Because basically every company, must have terms and conditions chosen to occupy the position. A fraudster cannot be measured using education, because basically if someone has the opportunity to commit fraud, even though he is not highly educated, he will commit fraud.

The last criterion in the fraud pentagon is arrogance, where arrogance is the arrogant nature of a person. The criteria for arrogance will be represented by three variables, namely CEO arrogance as a person who has political connections (CEO Political Connection), CEO arrogance in the form of narcissism (CEO PIC) and CEO arrogance as company founder (Founder CEO). Based on the results using the t-test, CEO Political Connection significant value is 0.003. That is, this variable has an effect on indications of fraudulent financial statements. This is because the CEO Political Connection's significant value is less than 0.05 or sig < 0.05. CEO arrogance in the form of narcissism (CEO Pic) variable has a significant value of 0.603, which means that the CEO Pic variable has no effect on indications of fraudulent financial statements, because the significant value in this variable is more than 0.05 or sig > 0.05. the image of the CEO in the company's annual report has no effect on indications of fraudulent financial statements. The significant value of FoD is 0.804, which means that the CEO arrogance as company founder variable has no effect on indications of fraudulent financial statements. This is because the significant value of CEO arrogance as company founder is more than 0.05, or in the sense of sig > 0.05, the adjusted R2 value is 0.144. That is, the independent variable is able to explain the dependent variable only by 14.4%. The rest comes from other variables that are outside the research model.

5. Conclusion

This study aims to examine the effect of CEO Capability and CEO Arrogance on indications of fraud in Financial Statements. The results of this study indicate that CEO capability as a respected party (CEO Age), CEO capability as the person who knows the most about the company (CEO Tenure) and CEO arrogance as a person who has political connections (CEO Political Connection) have an influence on the indication of fraudulent financial statements. CEO Capability in Accounting/finance knowledge (CEO Education), CEO arrogance in the form of narcissism (CEO PIC) and CEO arrogance as company founder (Founder CEO) have no influence on indications of fraudulent financial statements.

For auditors, this study is expected to provide information to auditors about the factors that influence companies to commit fraud in their financial statements. So that auditor can work more optimally starting from the planning stage, working paper, risk level, and reporting in the examination of a company's financial statements. For investors, this study is expected to provide information to investors so that investors can consider the Capabilities of the Board of Directors and the Arrogance of the Board of Directors as fraud factors which are unique additions to the highest management in the company when investing. Through the information generated by this study, it is hoped that investors can minimize the risk due to incorrectly investing in certain companies. For creditors, this study is expected to provide information to creditors so that creditors can consider the factors of the ability of the Board of Directors and the Arrogance of the Board of Directors in the company when providing loans. The company's ability to pay debts will not be detected if there is fraud in the financial statements. Through the information generated by this study, it is hoped that creditors can choose the right company to minimize the risk of providing loans that are not returned.
Further research can use another variable to measure CEO Capability and CEO arrogance. Another limitation is that this study only uses manufacturing companies, so it is recommended for further research to use companies from other sectors as well, as a comparison.

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