

Political connection and earnings management in government statutory bodies

Abstract

The purpose of this study is to explore the influence of political connection (PCONN) on earnings management (EM) of the Government Statutory Bodies in Malaysia. This study utilises qualitative approach by using semi-structured interviews with former auditors of Malaysian Federal Statutory Bodies (MFSB). The findings demonstrate that PCONN is not a threat to EM in MFSBs. However, a good governance practices is needed to ensure that political connection in the board is responsible for the correct company's financial reporting and at the same time does not lead to ethical lapses. This study outlines the need for stakeholders to consider objective mechanism in addressing the poor governance in government statutory bodies as a way to minimise EM problems. The findings are explained through the lens of agency theory. This study represents one of the first studies that focuses on PCONN and EM in government statutory bodies by using qualitative approach. The results have proved that political connection is not the primary threat to EM in government statutory body.