

ABSTRACT

Fraudulent financial statement is a scheme in which employees deliberately misstate or omit material information in an organization's financial statements, such as recording fictitious income, discouraging reported expenses, or inflating reported assets (RTTN, 2020). Fraudulent financial statement can occur not only because of the weak rules that apply, but also because of moral hazard actions from individuals or groups who are always looking for loopholes from a rule for their personal interests. These factors are explained in fraud theory, one of which is the diamond fraud theory first proposed by Wolfe and Hermanson (2004). The theory of fraud diamond consists of several elements, namely pressure, opportunity, rationalization, and capability. Therefore, this study aims to analyze the influence of pressure, opportunities, rationalization, and capabilities on fraudulent financial statement proxied with profit management. The theory underlying this research is agency theory, in which this theory explains the relationship between principals (shareholders) and agents (company management). From this relationship, conflicts of interest are formed that can cause moral hazard, so that there is a fraudulent practice of financial statements.

The population in this study consists of manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2020 period. The samples in the study were selected using purposive sampling techniques which resulted in a final sample of 465. The type of data used is secondary data, namely financial statements and annual reports of manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2020 period. The analysis technique used in this study is multiple linear regression analysis with the help of SPSS version 25. The hypothesis test in this study consists of a coefficient of determination test, an F statistical test, and a t statistical test.

Based on the results of the hypothesis test, it can be concluded that financial stability, external pressures, financial targets, and the nature of the industry have coefficients in a positive direction and have a significant effect on fraudulent financial statement. Meanwhile, the effectiveness of monitoring, the change of external auditors, and the change of directors have a coefficient in a positive direction and do not have a significant effect on fraudulent financial statement.

Keywords: Diamond Fraud Theory, pressure, opportunity, rationalization, capability, fraudulent financial statement