

ABSTRACT

Fraudulent financial statements, especially in State-Owned Enterprises (SOEs), is a criminal act of corruption with a very large level of financial losses. This study aims to examine the effect of the elements in the pentagon fraud theory on the possibility of fraudulent financial statements in SOEs and the influence of the possibility of fraudulent financial statements on the performance of SOEs. The pressure element is measured using financial stability, financial targets and external pressure, the rationalization element uses political connections and change of public auditor, the opportunity element uses supervisory effectiveness, the capability element uses change of directors and the arrogance element uses CEO narcissism. The performance of SOEs is measured using the SOE health rate score. The sample for this research is 62 SOEs from 2018 to 2021 with 216 observations whose financial reports are available and accessible. Data analysis in this study used panel data regression. The results of the research in the first model show that external pressure and financial targets have a significant effect on the possibility of fraudulent financial statements, while in the second model the possibility of fraudulent financial statements has no significant effect on the performance of SOEs, from the results of this study, fraud prevention must focus on reducing pressure caused by two significant variables, namely external pressure and financial targets.

Key words: Fraud pentagon; SOEs; fraudulent financial statement; performance.