ABSTRACT

Financial reports provide financial information such as financial performances, cash flow, assets and liabilities and other financial information which have become considerations for the investors. The over-statement financial statement is carried out by companies to gain more investors while on the other hand under-statement is carried out by companies to minimise taxes.

This research analyzed the implementation of fraud pentagon theory to detect fraudulent financial reports in infrastructure companies. The dependent variable of this research was fraudulent financial fraud which calculated by using Beneish M-Score measurement. The independent variable of this research were financial stability (proxied by Asset Change/ACHANGE), financial target (proxied by Return On Asset/ROA), external pressure (proxied by Leverage/DER), ineffective monitoring (proxied by number of independent director/BDOUT), rationalization (proxied by total accrual/TATA), competence (proxied by change in commissioner and directorial board/DCHANGE), and arrogance (proxied by number of award pages/REWARD). The research was using a purposive sampling method which resulted in 24 infrastructure companies listed in the main board index of IDX from the financial year 2017-2019. The data analyzed logistic regression analysis using SPSS.

The result of this research shows that financial stability, external pressure, and total accruals positively affects fraudulent financial reporting. However, financial targets, ineffective monitoring, change in commissioner and directorial board, and number of award pages have no significant effect on fraudulent financial reporting.

Keywords: fraudulent financial reporting, fraud pentagon theory, Beneish M-Score, financial statements, infrastructure companies