

## **ABSTRACT**

*Financial reporting fraud in 2016 known as the biggest cause of financial loss in the world. The theory that reveals the driving factors of fraud itself also has been present and thrive, with fraud pentagon as the last known theory, however, its effects are still not consistently revealed. Some cases of financial reporting fraud in Indonesia itself are still being found at chemical companies in manufacturing industry. It makes the effort to have an understanding of the factors that affect fraud, especially in that sector, is an important thing to be done in order to minimize the possibility of strategic sector's losses.*

*This research has purposed to investigate fraudulent financial reporting, pressure, opportunity, rationalization, capability, and arrogance at once the effect of that last five factors towards the fraudulent financial reporting itself at manufacturing companies that listed on Indonesia Stock Exchange basic industry and chemical sector for the period of 2012 to 2016. The measurement of this research variables is using data from company annual reports of that period.*

*This research is a quantitative research and categorized into descriptive and verificative research. Based on the type of investigation it's an associative research. The writer didn't intervene the data because this study used secondary data. The unit analysis of this research is organization and based on the time of its implementation, this research use panel data. The research data are chosen using purposive sampling technique so as the result there're five periods of 39 company annual reports from 2012 until 2016 or totally there are 195 sample. Inferential statistic and logistic regression are used as the data analysis technique with the help of Statistical Package for the Social Sciences (SPSS) software version 24.*

*The result of this research's sample examination isn't showing that there's a significant simultaneous effect of fraud pentagon on financial reporting fraud. Similar results also obtained for partial effect that in accordance to partial examinations of that five factors, there are results that shown no significant effect towards fraudulent financial reporting.*

*The next researchers are suggested to try other various proxies' combinations of that five-fraud factor and keep up to date in the development of fraud theory. For companies, the suggestions are always tring to be responsive to the changing of regulation and obey it so as to avoid the risk of legal and social sanctions causes by the indications of fraudulent financial reporting. Shareholders and other stakeholders are suggested to keep being prudent in the making of investment decision. For civitas academica please multiply discussions in order to deepen the thinking and understanding of accounting development, especially in the field of fraud audit and forensic accounting.*

*Keywords: fraud pentagon, fraudulent financial reporting*