

ABSTRACT

Fraud is a form of unlawful action that is intentionally carried out to obtain personal or group benefits and harm other parties. Fraudulent of financial statements which is one of the three main categories of fraud or referred to as fraud tree. So it may cause of mistakes can be misleading in decision making.

This study aims to examine the effect of fraud pentagon fraud theory (pressure, opportunity, rationalization, competence, and arrogance) on fraudulent financial statements using the Beneish method M-score model on companies listed in SRI-KEHATI index the Indonesia Stock Exchange for the period 2012-2017.

The data used in this study are secondary data in the form of annual reports and companys audited financial statements that are used as research samples. The sample selection technique in this study used purposive sampling so that 13 companies listed in SRI-KEHATI index were obtained with a four-year study period consist of 2012-2017 or in other words there were 78 samples in this study. The data analysis technique used was descriptive statistical analysis and logistic regression analysis using IBM SPSS 25 statistical software.

The results showed that financial targets, ineffective monitoring, nature of industry, changes in directors and the frequency of appearance of CEO photos had an effect on simultaneous to fraudulent financial statements. Partially ineffective monitoring, changes in directors and the frequency of appearance of CEO photos of fraudulent financial statements have a negative effect and the nature of industry has a positive effect, while financial targets have no effect on fraudulent financial statements.

This research is expected to be used as a reference and for future researchers it is recommended to add the research period and can use different research objects. For company management it is recommended to be more careful in presenting financial statements that are free from fraud. For investors, the results of this study can be used as material for consideration of investment decisions, and for regulators can use the results of this study as a discourse to improve regulation regarding factors underlying the fraudulent financial statements.

Keywords: *Beneish M-Score, Fraud, Fraud Pentagon, Fraudulent Financial Reporting*