

## **ABSTRACT**

*The financial statements contain all business activities of a company and are also a form of management accountability to parties who use financial statements. When viewed from the agency theory approach, there are differences in interests between shareholders (principals) and companies (agents), where the principals want the agents to do something as they wish, while the agents want to do something to maximize his utility. This difference in purpose causes a conflict of interest that ends in the condition of information asymmetry.*

*This study aims to determine the effect of diamond fraud. Fraud diamond itself consists of pressure, opportunity, rationalization, and capability towards fraudulent financial statements. The sample used in this study consisted of 106 manufacturing companies listed on the Indonesia Stock Exchange in 2016-2017.*

*The data used is secondary data obtained from financial statements and annual report of the manufacturing companies in 2016-2017. The number of companies in this study were 212 companies with the research year from 2016 to 2017. The technical analysis used logistic regression analysis.*

*The results showed that there were 5 samples indicated fraud. Diamond fraud which consists of pressure, opportunity, rationalization, and capability simultaneously influences on fraudulent financial statements. While partially, the pressure proxied with ACHANGE has a significant negative effect on fraudulent financial statements. Opportunity proxied by INVENTORY has no significant effect on fraudulent financial statements. Rationalization proxied by ACHANGE has no significant effect on fraudulent financial statements. Capability proxied by DCHANGE does not have a significant effect on fraudulent financial statements.*

*Based on the results of the study, the authors suggest that the next researchers can further develop each proxy used for diamond fraud variables. In addition, it is also a suggestion for companies to be able to make diamond fraud as an evaluation material to control and improve their previous performance. While suggestions for investors, can make diamond fraud research become one of the considerations in making investment decisions.*

**Keywords: Diamond Fraud, Fraudulent Financial Reporting**