# *ABSTRACT*

Nila Chandra / 34150608 / 2019 / *Analysis of the Effect of Fraud Diamond and Good Corporate Governance in Detecting the Possibility of Fraudulent Financial Statements in Manufacturing Companies Listed in Indonesia Stock Exchange in the Period of* 2015-2017 / Sugi Suhartono, S.E., M.Ak.

*In the financial statements there is a possibility of misstatements in the presentation of company’s financial statements relating to errors or fraud made or caused by managers in the company. Misrepresentation in financial statements causes a decrease in the level of trust of users of financial statements and can harm stakeholders. Increase in the fraud incidents indicates that there is a strong need for research that aims to identify effective methods for detecting potential fraud. This study aims to examine the analysis of the effect of fraud diamond and good corporate governance in detecting the possibility of fraudulent financial statemets.*

*The theories underlying this research include agency theory, fraud diamond, and good corporate governance. Agency theory is a relationship or contract between the principal and the agent. Differences in interests between principals and agents result in conflicts of interest. The theory of fraud diamond explains that the occurrence of fraud consist of four factors namely, pressure, opportunity, rationalization, and capability. And an effective corporate governance structure has a positive impact in reducing fraud incidents.*

*The research sample consisted of 46 manufacturing companies listed on the Stock Exchange in the period 2015-2017. Sampling is done by purposive sampling method. Hypothesis testing uses analysis of descriptive statistics, pooling test, and logistic regression analysis.*

*The results of the tests carried out state that data can be pooled. Based on the results of logistic regression analysis, variable financial stability (ACHANGE) has a significance value of 0.00050 with a coefficient of 7.788. Variable external pressure (LEV) has a significance value of 0.46500 with a coefficient of 0.275. Variable personal financial need (OSHIP) has a significance value of 0.34300 with a coefficient of 1.383. Variable nature of industry (RECEIVABLE) has a significance value of 0.00012 with a coefficient of 36.662. Variable effective monitoring (IND) has a significance value of 0.31050 with a coefficient of -2.627. Variable rationalization (AUDCHANGE) has a significance value of 0.00050 with a coefficient of 4.368. Variable capability (DCHANGE) has a significance value of 0.04350 with a coefficient of 1.201. Variable independent commissioner (INDCOM) has a significance value of 0.11850 with a coefficient of 3.974. And variable female on board (FOB) has a significance value of 0.04300 with a coefficient of -3.562.*

*The results of this study indicate that financial stability, nature of industry, rationalization, and capability have a positive effect on the possibility of fraudulent financial statements. Whereas female on board has a negative effect on the possibility of fraudulent financial statements. But external pressure, personal financial need, effective monitoring and independent board of commissioners are not proven to have effect on the possibility of fraudulent financial statements.*

*Keywords*: *Fraudulent Financial Statement, Fraud Diamond, Good Corporate Governance*