

Determinants of Fraudulent Financial Reporting within the Fraud Diamond Framework: Firm Size as a Moderating Variable

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ABSTRACT

Fraudulent financial reporting remains a critical issue that undermines the credibility of financial statements and investor trust. This study aims to analyze the influence of the elements in the Fraud Diamond Theory on the tendency of fraudulent financial reporting and to examine the moderating role of firm size in this relationship. Employing a quantitative approach, the research utilizes secondary data obtained from the annual financial reports of 27 infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2024. The purposive sampling technique was applied, and the data were analyzed using multiple linear regression and Moderated Regression Analysis (MRA) with EViews 9 software. The results reveal that financial targets and firm size have a significant positive effect on fraudulent financial reporting, while total accruals show a negative effect. Furthermore, firm size significantly moderates the relationship between total accruals and fraudulent financial reporting, but does not moderate other variables. These findings suggest that firm size should be considered in efforts to prevent fraudulent financial reporting, although its moderating influence on the Fraud Diamond factors varies. The results also provide valuable insights for management and regulators in strengthening corporate governance and internal control systems.

INTRODUCTION

Financial reporting serves as a manifestation of an entity's accountability for its financial information and operational activities, which are disclosed to stakeholders requiring the company's financial data (Kusumawati et al., 2021). The primary objective of financial reporting is to present an overview of the company's financial position and performance, which subsequently serves as a foundation for decision-making processes by both management and investors (Deliana et al., 2022). Stakeholders utilize financial statements as a basis to forecast, assess comparisons, and evaluate the financial consequences arising from management's economic decisions (Prakoso & Setiyorini, 2021). Consequently, management often engages in fraudulent financial reporting to embellish financial statements, thereby projecting favorable and high-quality performance (Fathmaningrum & Anggarani, 2021).

Fraudulent financial reporting refers to a condition in which an employee intentionally misrepresents information or deliberately omits essential disclosures in the company's financial statements (Rizkiawan & Subagio, 2023). According to research conducted by the Association of Certified Fraud Examiners (ACFE, 2024), financial statement fraud accounts for approximately 5% of all fraud cases. Although the proportion is relatively small, this type of fraud results in the highest average loss—around USD 766,000—which exceeds the losses caused by other forms of misconduct, such as asset misappropriation or corruption.

Firm size is a quantitative indicator that reflects the magnitude of a business entity, typically measured by total assets, total sales, number of employees, or market capitalization (Herdasaldy & Wijoyo, 2025). Large-scale companies generally place greater emphasis on maintaining their reputation and public image compared to smaller firms; therefore, they tend to present high-quality financial reports to preserve stakeholder trust (I Kadek Pebri Artana et al., 2023). Consequently, firm size becomes an essential element in studies related to fraudulent financial reporting, as it can influence the level of transparency and integrity in corporate disclosure practices.

In recent years, several cases have emerged in Indonesia, such as those involving PT Hutama Karya (2018) and PT Waskita Karya (2020). PT Hutama Karya engaged in the procurement of land assets beyond the approved budget without any actual transfer of ownership, while PT Waskita Karya fabricated documents to obtain financing facilities from banks. These incidents indicate that the practice of fraudulent financial reporting remains a critical issue within the accounting field.

To understand its underlying causes, many researchers have adopted the Fraud Diamond framework developed by Wolfe & Hermanson (2004), which emphasizes four key elements: pressure, opportunity, rationalization, and capability. Studies by Akbar (2017) and Aida Fitri et al (2019) found that pressure influences fraudulent financial reporting, Yarana (2023) and Juita Wilan et al (2019) reported different findings. Research conducted by Sari et al (2022) and Khamainy et al (2022) revealed that opportunity affects fraudulent financial reporting, while studies by Lestari et al (2025) and Movaffagh Candidate & Soleimany Amiri (2024) did not find such an effect. Yarana (2023) and Achmad, Hapsari, et al (2022) discovered that rationalization has a significant influence on fraudulent financial reporting, whereas Situngkir & Triyanto (2020) reported no such relationship. The findings of Ramadhanti Putri & Suryandari Fathamaningrum (2024) indicate that a change of directors affects fraudulent financial reporting, while research by Verolika et al (2024) found otherwise. Although Mentari & Indriani (2024) and I Kadek Pebri Artana et al (2023) demonstrated that firm size influences fraudulent financial reporting, contrasting results were obtained by Junus et al (2025) and Utomo & Mawardi (2024). The studies conducted by Herdasaldy & Wijoyo (2025) and Ningsih (2023) indicate that firm size can moderate several elements associated with fraudulent financial reporting. However, the findings of Yarana (2023) do not demonstrate the same result. These inconsistencies suggest the need for further investigation. Moreover, the moderating role of firm characteristics, such as firm size, has received relatively limited and insufficiently comprehensive examination within the context of the Fraud Diamond Theory.

The purpose of this study is to examine the effects of pressure, opportunity, rationalization, and capability on the likelihood of fraudulent financial reporting within companies. This research seeks to analyze the extent to which factors categorized under the Fraud Diamond Theory framework contribute to the emergence of manipulative behavior in financial information presentation. Firm size is taken into consideration because larger entities tend to have higher operational complexity, which may increase the likelihood of agency conflicts and provide greater opportunities for management to engage in

opportunistic behavior in financial reporting. Accordingly, this study is expected to provide a deeper understanding of the mechanisms underlying fraud occurrence and to serve as a foundation for companies, auditors, and regulatory authorities in designing effective strategies for the prevention and early detection of accounting fraud practices.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency theory

According to the Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure proposed by Jensen & Meckling (1976), a company is viewed as a nexus of contracts between shareholders as principals and managers as agents. Both the agent and the principal are assumed to be rational economic individuals driven primarily by self-interest; however, they differ in perspectives, beliefs, and access to information (Ghozali, 2020). This information asymmetry arises because management possesses broader access to internal information compared to shareholders (investors), thereby creating opportunities for deception, particularly in the preparation of financial statements (Wulandari & Ali, 2023). Furthermore, external monitoring pressure may generate hidden agency costs when managers begin attributing issues to external factors and lose intrinsic motivation to report the company's performance honestly, consequently increasing the likelihood of financial fraud (Shi et al., 2017).

Fraud

According to Prasetyono et al (2021), citing the Association of Certified Fraud Examiners (ACFE), fraud refers to any act that employs deception to obtain personal or organizational gain. Such actions are considered criminal offenses when they involve intentional misrepresentation or falsification of facts, as well as the deliberate concealment of material information intended to induce another party to act to their own detriment (Black's Law Dictionary). In other words, when an individual lies for the purpose of taking money or property belonging to another person or organization, that individual has committed fraud.

Fraud is classified into three main categories, namely:

1. **Corruption**
This type of scheme occurs when an employee exploits their position and influence in business transactions in a manner that contradicts their professional obligations to the employer, thereby generating personal gain—such as through bribery or conflicts of interest. Currently, corruption accounts for 48% of all fraud cases, with an average loss amounting to USD 200,000 (ACFE The Fraud Tree, 2025)
2. **Asset Misappropriation.**
This scheme arises when employees unlawfully seize or misuse the organization's resources, such as through the embezzlement of company cash, submission of fictitious invoices, or overstated expense claims. Asset misappropriation constitutes 89% of all fraud cases, making it the most prevalent form of fraud. The average loss resulting from asset misappropriation is approximately USD 120,000. (ACFE The Fraud Tree, 2025)
3. **Financial Statement Fraud**
This scheme occurs when an employee intentionally misrepresents or omits material information presented in the organization's financial statements—for example, by

recording fictitious revenues, understating expenses, or inflating asset values artificially. Although financial statement fraud represents only 5% of total fraud cases, it produces the highest average financial loss among all types of fraud, with an estimated value of USD 766,000. (ACFE The Fraud Tree, 2025)

Diamond Theory

In 2004, Wolfe & Hermanson developed a fraud theory known as the Fraud Diamond Theory. This theory is an extension of the Fraud Triangle, designed to identify fraudulent behavior in financial reporting by incorporating capability as the fourth element within its analytical framework (Zulfa & Tanusdjaja, 2022). Thus, the Fraud Diamond Theory comprises four key elements influencing fraudulent financial reporting, namely:

1. Pressure

Pressure refers to the motivation that arises from financial needs, lifestyle demands, or external pressures that drive individuals to commit fraud (Dr. Dien Noviany Rahmatika, 2020).

2. Opportunity

Opportunity represents circumstances that arise due to weak enforcement of sanctions, limitations in performance assessment, and other factors that enable manipulation of financial statements within a company (Kusumawati et al., 2021).

3. Rationalization

Rationalization refers to the mindset, attitudes, or set of moral principles that allow individuals to justify their unethical actions (Achmad, Hapsari, et al., 2022).

4. Capability

Capability reflects an individual's skill in circumventing internal control systems, devising methods to conceal fraudulent actions, and reading social dynamics to gain personal advantage (Wulandari & Ali, 2023).

Firm Size

Firm size is a quantitative measure that reflects the scale or magnitude of a business entity, typically assessed through indicators such as total assets, total sales, number of employees, or market capitalization (Herdasaldy & Wijoyo, 2025). Large firms often have incentives to reduce their reported earnings due to the high political costs they bear; consequently, they may employ accounting methods that defer profit recognition to minimize tax burdens or comply with newly introduced regulations (Mentari & Indriani, 2024). Although large organizations generally possess sufficient resources to implement effective fraud-prevention strategies, they may be reluctant to do so because senior managers involved in such practices realize that the enforcement of strong internal controls could expose their participation in fraudulent activities (Junus et al., 2025).

The Effect between Financial Targets and Fraudulent Financial Reporting

Personal pressure to commit fraud may be triggered by various factors, both financial and non-financial (Arkorful et al., 2022). Financial pressure can arise when managers make overly optimistic profit projections, face new regulatory requirements, or experience declining profitability, ultimately encouraging fraudulent behavior (Prakoso & Setiyorini, 2021). Implicitly, the establishment of financial targets generates additional

pressure on management to achieve predetermined performance goals (Achmad, Ghozali, et al., 2022) . Return on Assets (ROA) serves as a profitability-based measure reflecting a company's performance level. The findings of Akbar (2017) and Aida Fitri et al (2019) indicate that financial targets have a positive effect on fraudulent financial reporting. Based on the foregoing explanation, the research hypothesis can be formulated as follows:

H₁ : Financial Target Positively Affects Fraudulent Financial Reporting.

The Effect between Nature of Industry and Fraudulent Financial Reporting

The nature of industry refers to the inherent conditions of a company that relate to the level of risk faced by firms operating in industries requiring extensive estimation and professional judgment (Khamainy et al., 2022). Subjective considerations in determining the value of estimated accounts, such as receivables and inventories, may be exploited by management as a means to manipulate financial statements (Rahma et al., 2022) . Opportunities arise when internal control mechanisms are weak, often due to excessive trust placed in employees responsible for administrative and operational oversight, resulting in minimal or even absent supervision (Arkorful et al., 2022). Studies conducted by Sari et al (2022) and Khamainy et al (2022) , revealed that the nature of industry has a positive relationship with fraudulent financial reporting.

Based on the above discussion, the following hypothesis can be formulated:

H₂ : Nature of industry Positively Affects Fraudulent Financial Reporting.

The Effect between Total Accrual and Fraudulent Financial Reporting

Rationalization occurs when individuals attempt to find reasons or justifications for engaging in fraudulent actions (Achmad, Hapsari, et al., 2022) . Individuals who commit unethical acts tend to construct a form of moral justification that appears ethically acceptable prior to engaging in fraud or other deviant behaviors (Omukaga, 2020) . The accrual principle, which is fundamentally intended to make financial reporting more rational and equitable, is often exploited by managers as a means of manipulating reported earnings through accrual adjustments—therefore, the magnitude of total accruals can serve as an indicator of potential fraudulent financial reporting (Nuryatno Amin, 2022). This aligns with the application of the accrual basis in financial statements, which provides opportunities for management to modify financial information, as the accrual principle is closely related to managerial decision-making processes (Situngkir & Triyanto, 2020). Empirical evidence from studies conducted by Yarana (2023) and Achmad, Hapsari, et al (2022) confirms that total accruals have a positive effect on the likelihood of fraudulent financial reporting.

Based on the theoretical foundation and empirical findings discussed above, the research hypothesis can be formulated as follows:

H₃ : Total Accrual Positively Affects Fraudulent Financial Reporting

The Effect between Change of Directors and Fraudulent Financial Reporting

Capability reflects an individual's position within the organizational structure that enables them to exploit opportunities to commit fraud (Ratmono & Frendy, 2022). Periodic rotation of directors is essential to prevent excessive concentration of power over the long term and to encourage improvement in the performance of previous management (Rizkiawan & Subagio, 2023) . The appointment of new directors is expected to generate

greater value for the company (Kusumawati et al., 2021) . Research conducted by Ramadhanti Putri & Suryandari Fathamaningrum (2024) found a positive relationship between change of directors and fraudulent financial reporting.

Based on the theoretical foundation and previous empirical findings, the research hypothesis can be formulated as follows:

H₄ : Change of Directors Positively Affects Fraudulent financial reporting.

The Effect between Ukuran Perusahaan and Fraudulent Financial Reporting

Large-scale companies tend to maintain a stronger public image compared to smaller firms, thereby motivating them to present high-quality information as a means of preserving their credibility in the eyes of the public (I Kadek Pebri Artana et al., 2023) . Larger entities often have incentives to reduce reported earnings due to significant political cost pressures, leading them to adopt accounting approaches that limit profit recognition in order to minimize exposure to tax burdens and regulatory scrutiny (Mentari & Indriani, 2024) . The empirical results of studies conducted by Mentari & Indriani (2024) and I Kadek Pebri Artana et al (2023) confirm that firm size has a positive influence on fraudulent financial reporting. Based on the theoretical discussion and previous empirical evidence, the following research hypothesis can be formulated:

H₅ : Firm Size Positively Affects Fraudulent Financial Reporting.

The Influence of Moderating Variables on the Relationship between Financial Stability, Nature of Industry, Total Accrual, Change of Directors and Fraudulent Financial Reporting

Large-scale companies also face stronger external pressures from capital markets, investors, and the media, which demand consistent achievement of financial targets (Herdasaldy & Wijoyo, 2025). As a company's scale expands, its operational activities become increasingly complex, accompanied by a higher level of risk exposure, thereby creating potential for fraudulent practices in financial statement preparation (Meiliana et al., 2024).

Referring to the theoretical foundation and prior empirical studies, the research hypothesis proposed in this study is as follows:

H₆ : Firm Size Moderates The Relationship between Financial Stability and Fraudulent Financial Reporting.

H₇ : Firm Size Moderates The Relationship between Nature of industry and Fraudulent Financial Reporting.

H₈ : Firm Size Moderates The Relationship between Total Accrual and Fraudulent Financial Reporting.

H₉ : Firm Size Moderates The Relationship between Change of Directors and Fraudulent financial reporting g.

METHODS

This study employs a quantitative approach using secondary data. The data, consisting of financial statements and annual reports, were collected from 27 companies in the infrastructure sector. The sample was selected using a purposive sampling method

based on specific criteria, resulting in 108 observations derived from the IDX database through the official website of the Indonesia Stock Exchange.

The variables used and their measurement methods are shown in Table 1

Table 1. Operationalization of Variable

| Variable | Indicator |
|-------------------------------|--|
| Financial Target (X1) | $ROA = \frac{\text{Net Profit Asset After Tax}}{\text{Total Asset}}$ |
| | $Receivable = \frac{\text{Receivable}(t)}{\text{Sales}(t)} - \frac{\text{Receivable}(t-1)}{\text{Sales}(t-1)}$ |
| Nature of Industry (X2) | |
| Total Accrual (X3) | $= \frac{\text{Net Income form Operation}(t) - \text{Cash Flow from Op}}{\text{Total Asset}(t)}$ |
| Change of Directors (X4) | 1 The company replaced the board of directors 0 The company does not replace the board of directors |
| Financial Statement Fraud (y) | $F - \text{Score} = \text{Accrual Quality} + \text{Financial Performances}$ |
| Firm Size (Z) | $\text{Ln}(\text{Total Asset})$ |

Source: Author's compilation

Panel data regression analysis in this study was conducted using Multiple Linear Regression Analysis and Moderated Regression Analysis (MRA) with the assistance of EViews version 9 software. Prior to the model estimation process, a series of diagnostic tests were performed, including multicollinearity testing and model selection through the Chow test, Hausman test, and Lagrange Multiplier test, to determine the most representative estimation model. The resulting model is as follows:

1. Multiple Linear Regression Analysis.

$$\text{FRAUD} = \alpha + \beta_1 \text{ROA} + \beta_2 \text{RECEIVABLE} + \beta_3 \text{TATA} + \beta_4 \text{DCHANGE} + \beta_5 \text{SIZE} + \varepsilon \dots\dots\dots(1)$$

α = Constant regression coefficient; $\beta_{1,2,3,4,5}$ = Regression coefficients of each proxy;
ROA = Return on Assets; RECEIVABLE = Receivables ratio; TATA = Total accruals ratio;
DCHANGE = Change of directors; SIZE = Natural logarithm of total assets; ε = Error term

2. Moderated Regression Analysis

$$\text{FRAUD} = \alpha + \beta_1 \text{ROA} + \beta_2 \text{RECEIVABLE} + \beta_3 \text{TATA} + \beta_4 \text{DCHANGE} + \beta_5 \text{SIZE} + \beta_6 \text{ROA*SIZE} + \beta_7 \text{RECEIVABLE*SIZE} + \beta_8 \text{TATA*SIZE} + \beta_9 \text{DCHANGE*SIZE} + \epsilon \dots\dots\dots(2)$$

α = Constant regression coefficient; $\beta_{1,2,3,4,5,6,7,8,9}$ = Regression coefficients of each proxy; ROA = Return on Assets; RECEIVABLE = Receivables ratio; TATA = Total accruals ratio; DCHANGE = Change of directors; SIZE = Natural logarithm of total assets; ϵ = Error term

A hypothesis is considered supported if the direction of the regression coefficient aligns with the proposed hypothesis statement and demonstrates statistical significance, indicated by a p-value less than 0.05.

RESULTS

Table 3. Multicollinearity Test

| | ROA | RECEIVABLE | TATA | CHANGE OF DIRECTORS | SIZE |
|---------------------|-----------|------------|-----------|---------------------|----------|
| ROA | 1.000000 | -0.156804 | 0.665582 | 0.057531 | 0.214324 |
| RECEIVABLE | -0.156804 | 1.000000 | -0.021724 | -0.036684 | 0.044021 |
| TATA | 0.665582 | -0.021724 | 1.000000 | 0.018667 | 0.040827 |
| CHANGE OF DIRECTORS | 0.057531 | -0.036684 | 0.018667 | 1.000000 | 0.097694 |
| SIZE | 0.214324 | 0.044021 | 0.040827 | 0.097694 | 1.000000 |

Source: Data Processed by EViews13

The results of the multicollinearity test indicate that all correlation values among the independent variables are below 0.85, signifying the absence of a strong linear relationship between variables. Therefore, it can be concluded that the regression model is free from multicollinearity issues, implying that each independent variable can be appropriately utilized in the subsequent analysis.

Table 2. Adjusted R squared

| | |
|--------------------|-----------|
| R-squared | 0.677985 |
| Adjusted R-squared | 0.521450 |
| S.E. of regression | 0.516873 |
| Sum squared resid | 19.23532 |
| Log likelihood | -60.07468 |
| F-statistic | 4.331199 |

Source: Data Processed by EViews13

The Fixed Effect Model was employed as the panel data regression approach based on the results of the model selection test. The R-squared (R^2) value of the model was used to assess the model's goodness of fit. Theoretically, the coefficient of determination ranges from 0 to 1, where a higher R^2 indicates a greater ability of the model to explain the dependent variable. Conversely, the value of $1 - R^2$ represents the proportion of the

dependent variable that is not explained by the model. Based on Table 2, the R-squared value is 0.677985, and the Adjusted R-squared is 0.521450, indicating that approximately 52.15% of the variation in the dependent variable can be explained by the independent variables included in the model (ROA, ACHANGE, LEVERAGE, BDOU, AUDCHANGE, DIRCHANGE). The remaining 47.85% is influenced by other factors not incorporated in the model. These results suggest that the regression model demonstrates a moderate level of fit in analyzing the factors influencing fraudulent financial reporting.

Table 3. Multiple Linear Regression Test

| Variable | Coefficient | Prob. | Conclusion |
|---------------------|-------------|--------|-------------|
| Financial Target | 6.816146 | 0.0002 | H1 Accepted |
| Nature of Industry | 0.000954 | 0.8454 | H2 Rejected |
| Total Accrual | -7.463401 | 0.0000 | H3 Rejected |
| Change of Directors | 0.316982 | 0.1573 | H4 Rejected |
| Size | 0.814095 | 0.0093 | H5 Accepted |

Source: Data Processed by EViews13

Table 4. Moderated Regression Test

| Variable | Coefficient | Prob. | Conclusion |
|--------------------------|-------------|--------|-------------|
| Financial Target*Size | -1.377082 | 0.3137 | H6 Rejected |
| Nature of Industry*Size | 0.166750 | 0.3111 | H7 Rejected |
| Total Accrual*Size | 2.008207 | 0.0044 | H8 Accepted |
| Change of Directors*Size | -0.203393 | 0.0556 | H9 Rejected |

Source: Data Processed by EViews13

DISCUSSION

The Effect of Financial Target on Fraudulent Financial Reporting.

Based on the research findings, the significance value of 0.0002 with a positive coefficient indicates that financial targets have an influence on detecting fraudulent financial reporting. A higher ROA reflects the company's ability to generate substantial profits, which in turn creates pressure to achieve even higher earnings in subsequent periods. Financial targets reflect managerial pressure to meet performance goals set by the board of directors, including those related to bonuses and incentives (Kusumawati et al., 2021) . Such conditions may trigger conflicts of interest between agents and principals, thereby motivating managers to manipulate financial statements for personal gain. These results are consistent with the studies conducted by Kusumawati et al (2021) , Fathmaningrum & Anggarani (2021), dan Fahira et al (2021).

The Effect of Nature of industry on Fraudulent Financial Reporting.

Based on the research findings, the significance value of 0.8454 indicates that the nature of the industry has no significant effect on detecting fraudulent financial reporting. This finding suggests a low level of managerial involvement in decision-making processes. When there is a clear separation between management functions and decision-making authority, the complexity of transactions with related parties that could potentially encourage financial statement fraud is unlikely to occur (Deliana et al., 2022). This indicates that an effective monitoring mechanism can minimize information asymmetry between agents and principals, thereby reducing the potential for managerial opportunistic behavior. These results are consistent with the studies conducted by Rahma et al (2022), Wulandari & Ali (2023), Achmad, Ghozali, et al (2022).

The Effect of Total Accrual on Fraudulent Financial Reporting

Based on the research results, the significance value of 0.0000 with a negative coefficient indicates that total accruals have a negative effect on financial reporting, implying that the findings are inconsistent with the initial hypothesis. This result suggests a possible managerial tendency to adopt conservative accounting practices, such as income smoothing or "big bath" accounting (Mielcarz et al., 2023). Negative accruals may represent a strategic response by management to external pressures, including the COVID-19 pandemic, leadership transitions, or market expectations (Yaşar & Yalçın, 2024). Such behavior reflects managerial efforts, as agents, to adjust financial reporting in ways that preserve the principal's trust and mitigate conflicts of interest stemming from informational imbalances.

The Effect of Change of Directors on Fraudulent financial reporting.

Based on the research results, the significance value of 0.1573 indicates that the change of directors has no effect on detecting fraudulent financial reporting. This finding suggests that infrastructure sector companies included in the study rarely experience board changes. When a company implements a robust internal control system, even directors with strong capabilities and full access to resources are less likely to commit fraud due to the absence of weaknesses in internal control mechanisms (Setiawan & Soewarno, 2025). This condition can be interpreted through the application of corporate governance mechanisms that serve to regulate managerial behavior, thereby mitigating agency conflicts and constraining opportunities for opportunistic actions by management. This result is consistent with the findings of I Kadek Pebri Artana et al (2023), Rahma et al (2022).

The Effect of Firm Size on Fraudulent Financial Reporting.

Based on the research results, the significance value of 0.0093 with a positive coefficient indicates that firm size has a significant effect on fraudulent financial reporting. This finding is consistent with the studies conducted by Mentari & Indriani (2024) and I Kadek Pebri Artana et al (2023), which suggest that larger firms tend to enhance their public image while simultaneously managing their reported earnings to minimize tax obligations. The findings suggest that as firm size increases, the potential for agency conflicts also rises, driven by greater organizational complexity and the separation of ownership and control. Consequently, managers may be motivated to manipulate financial statements to preserve the company's reputation and satisfy shareholder expectations.

The Influence of Moderating Variables on the Relationship between Financial Stability, Nature of Industry, Total Accrual, Change of Directors on Fraudulent Financial Reporting.

Based on the research findings, firm size does not moderate the relationship between financial stability, nature of industry, and change of directors with fraudulent financial reporting. However, it does moderate the relationship between total accruals and fraudulent financial reporting. This result is consistent with the study conducted by Yarana (2023) , which stated that firm size is unable to moderate financial statement fraud. Although firm size has a positive effect on fraudulent financial reporting, it does not necessarily function as a moderating variable within each element of the fraud diamond framework. This indicates that the magnitude of firm size does not necessarily strengthen or weaken the relationship among fraud-related factors, as the effectiveness of monitoring mechanisms and corporate governance in large companies can suppress managerial opportunistic behavior, even though the potential for agency conflicts remains due to organizational complexity.

CONCLUSION

This study provides empirical evidence regarding the factors influencing fraudulent financial reporting within the framework of the Fraud Diamond Theory by incorporating firm size as a moderating variable. The findings reveal that financial targets and firm size significantly affect the likelihood of fraudulent financial reporting, while total accruals exhibit a negative effect, indicating the implementation of conservative accounting practices by firms. Moreover, firm size is found to strengthen the relationship between total accruals and fraudulent financial reporting, suggesting that despite having robust internal control systems, large firms' managerial complexity still opens opportunities for financial statement manipulation.

These results underscore the importance of implementing effective internal control systems and strengthening corporate governance mechanisms to minimize opportunities for fraud. Theoretically, this study extends the understanding of the interaction among elements of the Fraud Diamond Theory by considering the moderating role of firm size in the context of infrastructure companies in Indonesia.

LIMITATIONS

Nevertheless, this study is subject to several limitations that may affect the external validity of its findings. First, the sample selection focusing solely on infrastructure sector firms may produce contextual bias, meaning that the results may not represent fraud dynamics in other industries with different operational characteristics. Second, the quantitative approach, which relies entirely on secondary data, limits the ability to explore the underlying motives behind fraudulent behavior, excluding psychological or ethical managerial aspects that might also play a role.

Another limitation lies in the relatively low explanatory power of the independent variables in explaining variations in the dependent variable. The coefficient of determination obtained was only 0.521450 or 52.14%, indicating that financial target, receivable, total

accrual, and change of director variables collectively explain only a portion of the potential for fraudulent financial reporting. Therefore, future research is recommended to include other relevant variables in fraud detection and to broaden the scope and sample to sectors beyond infrastructure companies.

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