Analysis of Factors and Fraud Preventive Efforts in Company Financial Reports: A Literature Review Study

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ABSTRACT

The research in this article aims to identify and provide an overview of the factors that cause fraud and explain efforts to prevent fraud in company financial reports. The results of the research show that there are seven factors that cause fraud in company financial reports, namely greed, opportunity, need, exposure, unshareable pressure/incentive, rationalization, and capacity. Apart from that, it turns out that digital technology has a negative impact in creating the potential to cause fraud in company financial reports. The preventive efforts that can be taken to prevent fraud in company financial reports are through improving risk management, internal control, and the use of digital forensic concepts which are expected to provide input for company management to avoid fraud in company financial reports from an early age. Apart from that, for future academics and researchers, it is hoped that this research can become a reference source for developing knowledge related to fraud.

Keyword: Fraud, Risk Management, Internal Control, Financial Reports

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1. INTRODUCTION

Fraud is a problem that all companies face regardless of size or industry type. According to the Securities and Exchange Commission (SEC), fraud is an illegal act that can be carried out by anyone, either directly or indirectly using inter-country trade or instruments from the stock exchange (Sholihah & Prasetyono, 2016). The Institute of Internal Auditors (IIA) also describes fraud as a series of irregularities and illegal acts characterized by deliberate deception to gain advantage or harm people external or internal to the organization. In addition, the Association of Certified Fraud Examiners (ACFE) explains fraud as activities aimed at achieving profit through dishonest means. Fraud is a criminal act where someone deliberately ignores the truth, especially by hiding material facts.

Fraud can occur when an organization has valuable property such as cash, goods, or services. According to Kristiyanis & Hamidah (2020) based on data obtained from ACFE Indonesia, the most common case in Indonesia is corruption, with 167 cases or a percentage of 69.9%. Apart from that, there were 50 cases of irregularities in state assets or 20.9%, and 22 cases of irregularities in financial reports or 9.2%. From this explanation, it can be seen that financial statement fraud is in third place. However, financial statement fraud should not be viewed as a trivial problem because a company’s financial reports are the main parameter in determining company performance. Financial statement fraud can cause significant losses because it is measured based on market capitalization or loss of shareholder value. Therefore, steps to reduce the risk of fraud in financial reports need to be strengthened in order to avoid major losses for the company, such as loss of value for shareholders.

Fraud in a company’s financial reports will create risks that have the potential to affect the achievement of the goals of an organization or company. Therefore, management’s responsibility is to provide financial information that is clear and free from fraud and fraud. Efforts to prevent fraud in financial reports are very important. Based on theory and research, there are various efforts that can be made to prevent fraudulent practices in financial reports. This aims to identify and overcome fraudulent practices from the start. Risk management and internal controls can be a positive plan in dealing with the threat of fraud. Currently, fraud is a major risk that can threaten a business, not only in terms of financial health, but can also threaten the company’s image and reputation. Therefore, an effective way to deal with the problem of fraud is needed, namely by using methods that can reduce motives, limit opportunities, and limit the potential ability of fraudsters to rationalize their actions. Additionally, preventive control measures are needed to reduce opportunities and prevent the temptation of potential violations in cases of intentional fraudulent acts. The introduction of policies, procedures and controls, as well as training and awareness regarding fraud are effective fraud prevention techniques.

Research related to the topic of fraud has been widely carried out, such as research conducted by Damayani et al. (2019) entitled “The Influence of Pentagon Fraud on Financial Report Fraud in Infrastructure Companies Listed on the Indonesia Stock Exchange in 2014-2016”, the results of the research state that the variables financial stability, financial targets, external pressure, managerial ownership, loose supervision, change of auditor, change of directors, and the presence of a CEO together have a significant effect on fraud in financial reports. Then research conducted by Sagala & Siagian (2021) entitled “The Influence of the Fraud Hexagon Model on Fraudulent Financial Reports in Food and Beverage Sub-Sector Companies Listed on the IDX in 2016-2019”, the results of the research stated that the results of data testing carried out on the fraud variable The hexagon model shows that the pressure variable has a significant effect on financial statement fraud. Apart from that,
research conducted by Suhartono & Jannah (2021) entitled “Examining the Impact of the Application of Forensic Accounting in Detecting Fraud in Procurement of Goods/Services in the Public Sector”, the results of their research state that forensic accounting that can be applied is able to reduce various cases of fraud that occur in the public sector significantly. Apart from that, research conducted by Kristiyani & Hamidah (2020) entitled “Model of Implementing Public Sector Accounting to Prevent Fraud in the Public Sector in the Digital Era”, the results of their research state that fraud that occurs in the public sector is caused by misconceptions related to the presence of digital technology in maximizing opportunities to commit fraud.

Apart from that, it turns out that from the results of the literature review that the author collected, there are two studies related to literature review studies on fraud that have been carried out. The first research was conducted by Yudhiyati (2020) entitled “Forensic Accounting Education in Indonesia: A Literature Review”, the results of this research show that all parties agree that there will be an increase in demand for forensic accounting which will encourage the teaching of forensic accounting in universities. Unfortunately, there are different opinions about how forensic accounting should be taught. Students and academics support the topic of forensic accounting being integrated into other courses, while practitioners prefer separate courses. Other research concludes that the skills and character that need to be developed in forensic accountants in Indonesia can be divided into three attributes, namely mentality, investigative skills, and experience in dealing with various types of cases. Then, the second research was conducted by Hendri & Sari (2018) entitled “Systematic Literature Review: The Strategy for Preventing Government Financial Report Fraud”, the results of this research show that there are several effective strategies for preventing financial report fraud in the government sector, including controlling good and effective internal work, improving organizational culture, creating policies and procedures to prevent fraud (anti-fraud policy), whistle blowing, and implementing forensic accounting.

From the various studies collected, it turns out that there is no research that discusses studies regarding the factors that influence the occurrence of fraud and preventive efforts to prevent fraud in company financial reports using literature review studies. This is the novelty of this research compared to previous research. It is hoped that this research will provide benefits for academics, future researchers and policy makers. For academics and future researchers, it is hoped that this research can become literature material for reference sources so that it can increase knowledge about fraud, the factors that influence the occurrence of fraud and preventive efforts to prevent fraud from occurring. Then, for policy makers and company stakeholders, it is hoped that this research can provide input for relevant agencies regarding the possibility of fraud in order to reduce and prevent fraud and make preventive efforts to prevent fraud. By carrying out preventive efforts to overcome fraud in financial reports, greater state losses can be prevented and the organization’s reputation can be maintained well. Carrying out early prevention is much better than detecting fraud after it occurs (Abdullahi & Mansor, 2018).

2. LITERATURE REVIEW AND HYPOTHESIS

Internal Control

Internal control is an activity in the form of procedures to provide confidence that an activity should be carried out and is far from deviant activities (Fibriyanti, 2023). Effective and efficient internal control is very much needed by companies today. Saraswati & NP (2014) explain that internal control is an organizational structure that plays a supporting role in supervising activities related to the use of company
assets. Its function is to reduce the risk of errors, fraud and irregularities within the company. This aims to ensure the smooth operation of the company and achieve the main goals of the company or organization. The aim of internal control is to improve operational effectiveness and efficiency, reliability and financial reporting, as well as compliance with applicable laws and regulations.

**Risk Management**
Risk management is an effort to identify, analyze and control risks in various company activities with the aim of increasing effectiveness and efficiency. Apart from that, risk management also functions as a preventive measure against risk by identifying sources of risk, tracking and taking various steps to minimize the possibility of risk occurring (Maychael & Pangestuti, 2022). The results of research by Supriyadi & Setyorini (2020) show that risk management plays a role in protecting capital and optimizing business volume to obtain returns commensurate with the risks faced. Some studies also state that enterprise risk management can reduce the costs of financial distress, increase managerial risk aversion, reduce the expected tax burden, address the problem of underinvestment, and provide confidence for businesses to undertake new investment projects. Apart from that, risk management can also improve company performance by reducing the cost of capital, increasing investor confidence, and increasing the company’s rating which shows the company’s ability to pay debts. However, we need to be aware that in some situations, management may be tempted to commit fraud so that the financial reports look better (Prayoga & Sudarmaji, 2019).

**Financial statements**
Financial reports are the result of an accounting process which functions as a means of communication between financial data or activities of a company and parties who have an interest in the company’s data (Herawati, 2019). The purpose of financial reports includes providing information about income, financial changes, management performance, as well as notes and other information. Financial reports also function as a tool to measure business results and company development over a period and also to assess the extent to which the company has achieved its stated goals. Financial reports have two characteristics, namely historical, meaning that financial reports are prepared based on data from the past or periods that have passed since the present, and comprehensive, meaning that financial reports include clear and comprehensive information. The information contained in financial reports has a very important role, because it encourages managers to improve company performance so that the company’s existence can be maintained. This is in accordance with research conducted by Vinella et al., (2022) which revealed that when the financial information submitted is relevant, timely, accurate and comprehensive it can increase the positive signals produced.

**Fraud**
Fraud literally refers to the act of cheating. This term is generally used to describe individuals or groups who commit violations or act contrary to the law for personal or group interests, which results in losses for other parties (Prayoga & Sudarmaji, 2019). The Supervision Education and Training Center (Pusdiklatwas) from the Financial and Development Supervisory Agency (BPKP) also explains that fraud is an act that violates the law that has been established by a company. This fraud is carried out by people both internal and external to the company, with the aim of obtaining personal or group benefits, either directly or indirectly. One form of fraud that occurs is irregularities in the financial reports of a company. Deviations in the company’s financial reports are earnings management actions carried out by agents due to conflicts of interest and asymmetric information with the owner. As a result
of this, agency problems occur between owners and agents who experience losses (Prayoga & Sudarmaji, 2019). Therefore, company owners as parties who have an interest in the financial statements must know that the company being founded has a predetermined goal.

3. METHODS
The method used in this research is a descriptive qualitative method with a literature review study. This method aims to search for the topic being researched so that a more detailed and complete explanation is obtained (Creswell, 2014). Researchers hope that through this approach they can obtain information that can explain the variables and conditions being studied. The research data used is secondary data obtained from literature study. This data was collected through a search on Google Scholar. This literature study is used to collect theories, research data or findings in previous research on various research topics studied. According to Bungin (2017) the data that has been obtained will later be analyzed using a qualitative analysis method which is carried out with 3 stages of analysis as follows:

a. Data Reduction, the data obtained is taken based on data related to the study topic and reduces data that is less relevant related to the study topic being researched.

b. Data presentation, after data reduction, the data obtained can then be described in the form of descriptions or relationships related to categories and other types with the aim of making it easier to identify data interpretation.

c. Drawing conclusions, in answering research problems, this is done by drawing conclusions which are findings obtained from the results of data identification.

4. RESULTS AND DISCUSSION
Based on various literature that the author has collected, the results show that of the 31 articles analyzed, 35.5% used quantitative methods and 64.5% used qualitative methods. This data illustrates that qualitative methods are more widely used by researchers (Figure 1).

Fraud occurs because there is an opportunity to do so. There are 3 types of fraud based on their form, namely misappropriation of assets, falsification of financial reports, and acts of corruption (Sihombing et al., 2019). The first is misappropriation of assets (asset misappropriation), which includes theft and misappropriation of company assets, such as stealing goods in factories, stealing cash, falsifying invoices, fraud in making receivables, and fraud in making payroll. Misappropriation of assets is a form of fraud that is easier to identify, this is because it is tangible. Usually the perpetrators of misappropriation of these assets are employees who have strategic positions in an entity or organization. By taking advantage of a person’s power, it
Manossoh (2016) conducted research regarding poor institutional performance, apparently caused by officials who have power taking advantage of these conditions to abuse their power, thereby increasing the occurrence of fraud. This poorly functioning institutional system is built on poor resources.

Secondly, a fraudulent statement can be in the form of a financial report document that is falsified with the aim of achieving personal gain, this can include falsifying evidence of employee certification. Damayani et al. (2019) explained that falsification in financial reports is a criminal act that can cause material misstatements which can result in wrong actions in decision making by managers of an organization. Third is corruption, which includes bribery, spreading false information, problems of interest, and tender rigging. There is a study conducted by Muhtar et al. (2018) which discusses fraud in the form of corruption. This corruption occurred in one of the public organizations in Indonesia which refers to the fraud triangle theory. The results of this research show that performance accountability has a significant effect and has a negative effect.

Based on a literature review of 31 articles that have been collected, the place where implementation is often carried out is in the corporate sector. In the corporate sector, it was 57.9%. Meanwhile, in the government sector it was only 42.1%. Many studies conducted in the corporate sector show that the practice of fraudulent financial reporting is very vulnerable to occurring in the corporate sector. One example is research conducted by Christian & Julyanti (2022) which revealed that the case at PT Asuransi Jiwasraya was proven to have committed fraud in the form of corruption and manipulation of financial reports. PT. Auransi Jiwasraya manipulated its financial reports as a result of an equity deficit due to acts of corruption carried out by company management. This act of fraud certainly harmed many parties, especially customers and the state, with losses amounting to Rp. 16 trillion. This act of fraud has been indicated for several years through inspections by external parties (Figure 2).

There are factors that open up wider opportunities for fraud, especially in fraudulent company financial reports. Based on data that the author has collected through a literature review, opportunity is the factor with the highest presentation, namely 23.5%, then pressure (unshareable pressure/incentive) and rationalization at 19.6%, greed (greed) of 9.8%, needs and capacity of 7.8%, and technology and exposure of 5.9%.

Research conducted by Shodiq et al. (2013) explains that there are 4 factors that cause individuals to commit acts of fraud, namely greed, which is a person’s
greedy nature which is potentially present in every individual. Second, there is an opportunity, this opportunity is closely related to the condition of an entity or community organization which has the opportunity to open up opportunities for someone to commit fraud. Third, namely needs, these factors are caused by the needs of each person in fulfilling an adequate lifestyle. The four disclosures are the result of the fraud perpetrator’s crimes when they are finally proven to have committed fraud.

Apart from that, based on the research results of Anggraini et al. (2019) it is revealed that there are 3 main factors for individuals to commit acts of fraud which are explained in the form of a fraud triangle. Firstly, there is pressure (unshareable pressure/incentive) which drives individuals to commit fraudulent acts. The driving factors are economic, emotional which is caused by envy, prestige, power and revenge, then there are values and some are also caused by greed. Second is the presence of opportunity or opportunity (perceived opportunity) which is a situation where a person commits or removes traces of a dishonest act. This occurs because an entity’s internal control is still low and there is minimal supervision or abuse of authority. Third, rationalization, which is an important part of fraud, an individual who commits fraud always tries to find the truth about himself before carrying out the action. This rationalization is carried out so that individuals can understand that the actions they take are not based on applicable law in order to continue to defend themselves so that they remain trusted, but once the action has been carried out the rationalization is forgotten. Many rationalization attitudes are shown to use assets taken without permission with the aim of meeting their family’s needs.

Based on the causal factors that have been explained based on the fraud triangle theory, there is the fraud diamond theory which gives rise to a new factor, namely the capacity factor which explains an individual’s position in a company (Kristiyani & Hamidah, 2020). The existence of individuals in a company can encourage the ability to provide opportunities for fraud that are not available to other people. Therefore, when someone commits an act of fraud, they need the capacity in the form of traits and capabilities to indicate fraud so that they can benefit themselves in making a profit. Apart from that, based on research conducted by Ruankaew (2016), there are characteristics of individual actions in committing fraud, including a) someone who has a position in an organization, for example a leader who has a strategic role in influencing fraud, this is because of the position they hold. owned by the organization; b) the ability to identify potential weak accounting systems in

Figure 3. Factors that Cause Fraud
internal control by understanding how the system works; c) belief that the fraudulent act committed will not be detected, meaning that when the perpetrator has high self-confidence, he will be open to committing fraud; and d) the ability to actively overcome stress due to the risk of being caught committing fraudulent acts.

Apart from that, based on ACFE’s explanation, digital technology also has the potential to cause the development of these three types of fraud. With the benefits of technology, the potential for fraud arises which becomes effective and efficient in covering up the fraud committed. By taking advantage of this opportunity, the party committing the fraud has the aim of making a profit by taking advantage of this opportunity to deceive people who do not know about the digital technology needed for the accounting process. This is in accordance with the fraud triangle and diamond theories, which discuss the existence of opportunity and capacity to commit fraud by utilizing advances in digital technology and the company’s ability to use this technology (Ruankaew, 2016).

Fraud has become an action whose existence is an infectious disease in an entity that can be carried out either individually or collectively. Therefore, important efforts are needed to prevent this, such as reducing the risk of fraud by carrying out risk management, improving the internal control system, using internal and external audit services, and implementing forensic accounting in digital form (Ministry of Research and Technology of the Republic of Indonesia, 2019). Apart from that, it is important to create an anti-fraud culture within the company and it is also necessary to eliminate opportunities that might create fraudulent acts for individuals. When an entity can present an anti-fraud culture so that it can change the behavior of its employees, these changes in the long term can prevent fraudulent financial statements from occurring in the company. According to Mcmahon et al. (2016) it is necessary to instill the values of honesty and inform the company of the negative impact of financial report fraud. This explanation is given to all company employees from various levels of positions which specifically indicate cases of fraud in an organization. In preventing fraud from occurring in the company’s financial reports, management needs to carry out activities in managing human resources to avoid the risks that have been studied previously. One of them is by making various related considerations, and testing it by asking what is the most effective way to overcome the problem. Based on this, management has the responsibility to manage risk. Implementing internal control and risk management can foster the success of achieving company goals.

Planned activities are needed to minimize risks arising from corporate fraud cases which refer to fraud risk management (Laudeciska et al., 2023). Risk management for fraud was first formed from a work plan for risk management which was spearheaded by the Committee of the Sponsoring Organization (COSO). The work plan explains that all organizations need to carry out formal technical control which then provides suggestions that recommend carrying out adequate measurements in evaluating the achievement of the objectives carried out. This work plan reveals 4 recommendations for overcoming fraud, namely by considering various types of fraud, assessing pressure, potential and rationalization factors (Committee of Sponsoring Organizations of the Threadway Commission, 2016). In this case, The Fraud Triangle theory is very in line with the suggestions that have been recommended. In considering the various possibilities of fraud by an entity, it is necessary to assess the risks to achieve its objectives. This is because there is an opportunity for each individual to carry out unreasonable behavior in the organization. This work design can place great emphasis on compliance and the risk of fraud which can be used as a reference in measuring the effectiveness of internal...
control which has become a standard year audit. In addition, adjustments to changes in environmental regulations, business activities and operations management are deemed necessary to use a control system within an entity.

Based on the COSO framework which consists of anti-fraud programs, various fraud risk assessments are carried out in an organization. By doing this, it can make it easier to provide structural means to deal with fraud opportunities more actively so as to reduce the risk of fraud itself. Apart from that, this will create control management in the internal environment to reduce risks and identify fraud. Effectively, there is an approach to managing fraud risk on a business basis which can be carried out using an approach through 3 aspects, namely detecting, preventing and responding (Boateng et al., 2014). In detecting fraud, an assessment is carried out regarding the existence of fraud in order to emphasize the risk of fraud occurring. The method for detecting fraud will become a planning concept for assessing fraud effectively and efficiently after implementing prevention strategies. Thus, this is an appropriate corrective action.

The company’s internal control process is weak and declining due to the absence of good risk management. In addition, a weak and declining internal control system will cause corporate governance to also weaken. According to Moeller (2013) internal control is a very important factor in managing risk management in an organization. The risk management program has a role in ensuring risk management by internal auditors so that the company is maintained. Based on company risk management, an interpretation of audit risks to external auditors is expected to resolve the fraud crisis. The relationship between fraud and policy control is the responsibility of an auditor. Apart from that, auditors have the responsibility to carry out early detection to indicate fraud in an organization. The results of a company’s financial reports need to be supervised by an auditor who is the head of the system controller in the company. Fraud in an entity’s financial statements can be caused by various factors. The main factor that encourages fraud in an entity can be seen from an entity that has the burden of achieving the company’s high profit financial goals. This explanation can give rise to potential losses caused by fraud itself (Kostova, 2013). The results of research conducted by Fahmi & Syahputra (2019) explain the involvement of an internal auditor in the company in preventing fraud. Internal audit needs to control weaknesses that occur as a better control effort. There are several procedures that must be carried out by internal audit, such as carrying out the planning stage, testing stage, and monitoring follow-up audit results.

The risk of material misstatement can be reduced and can encourage reasonable assurance. However, based on Generally Accepted Auditing Standards (GAAS) cannot provide absolute guarantees. When an audit finds something that raises doubts, it is necessary to review all the problems in the audit. Fraud perpetrators can use fake information and documents to hide the fraud perpetrator’s actions during the verification process. Material balances are required to be checked by the auditor for fraud. In order to reduce the risk of material misstatement, GAAS audits are made in an entity’s financial statements (Love & Manisero, 2021). Johnson et al., (2018) conducted research that revealed fraudulent behavior that was consistently related to narcissism and fraud. An audit person really needs to have the ability to detect fraud in an entity so that it is hoped that the risk of fraud can be prevented as early as possible. Therefore, an audit requires a high level of experience and expertise. Apart from that, research conducted by Simha & Satyanarayan (2016) states that it is necessary to use qualitative data and forensic examination as a method of preventing and identifying fraud.

Apart from that, technology currently plays an important role in identifying
and preventing fraud within an entity. In preventing and detecting fraud, various combinations are required which are outlined in various literature related to fraud itself. Prevention and detection of fraud from various literature sources apparently shows information related to the role of the application of technology. By using the auditor’s experience, the application of technology is demonstrated in seeing indications of fraud from a forensic perspective. From this explanation it can be concluded that forensic examination in financial report fraud is still lacking in identifying and preventing fraud, technology plays an important role in fraud. Apart from that, research results from Simeunović et al. (2020) reveal that fraud committed by employees in an organization can use the concept of fraud detection through digital forensics to detect fraud. Using this concept becomes efficient and effective in identifying fraud in financial reports and proving the existence of fraud in digital form.

5. CONCLUSION
Based on various review literature that the author has collected, it can be concluded that there are seven factors that cause fraud in company financial reports, namely greed, opportunity, need, exposure, and unshareable pressure (incentive), rationalization, and capacity. Apart from that, when viewed from the negative side, digital technology has the potential to cause fraud in company financial reports. Based on the various factors that cause fraud in company financial reports, there needs to be fraud prevention efforts carried out by company management through risk management and internal control. Apart from that, when viewed from the positive side, digital technology has an important role in helping detect and prevent fraud in companies because by using digital forensic concepts it can be more effective and efficient in detecting fraud. By improving risk management, internal control within the company, and utilizing digital forensic concepts, it is hoped that this can provide input for company management to prevent fraud from occurring in the company’s financial reports from an early age. Apart from that, for future academics and researchers, it is hoped that this research can become a reference source for developing knowledge related to fraud.

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