


**GOOD CORPORATE GOVERNANCE, CORPORATE SOCIAL RESPONSIBILITY AND
FRAUD DETECTION OF FINANCIAL STATEMENTS**

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ARTICLE INFO	ABSTRACT
<p>Article history:</p> <p>Received 20 February 2023</p> <p>Accepted 11 May 2023</p>	<p>Purpose: The aim of this research is to serve an overview of how corporate social responsibility (CSR), good corporate governance (GCG), and financial statement fraud detection work together to reduce fraudulent financial statements.</p> <p>Theoretical framework: Cressey (1953) showed that there are three main reasons for fraud as it is known today, they are pressures faced by perpetrators, opportunities owned by perpetrators, rationalization behind the perpetrators.</p> <p>Design/methodology/approach: Qualitative content analysis is the research method used in publication of scientific articles.</p> <p>Findings: The attained findings reached a conclusion that financial statement fraud can be decreased by good governance, social responsibility and financial statement fraud detection. Additionally, efforts at prevention and detection must be supported by ethical values and a corporate culture that minimizes the use of false financial statements. Overall, generalizations may be made about the functions of governance, social responsibility, and fraud detection in financial statements.</p> <p>Research, Practical & Social implications: Some regions are able to implement a good governance system so that it is effective in handling fraud that occurs, and some have not shown this. Research shows that the elements of governance that are tested through quantitative research still give varying results. The system for the category of good corporate governance does not always give positive results.</p> <p>Originality/value: This article is a contribution to the academic literature that helps us comprehend studies on the importance of corporate social responsibility and how to identify financial statement fraud in order to decrease and steer clear of it.</p>
<p>Keywords:</p> <p>Good Corporate Governance; Corporate Social Responsibility; Financial Statement Fraud.</p> 	<p>Doi: https://doi.org/10.26668/businessreview/2023.v8i5.1051</p>

**BOA GOVERNANÇA CORPORATIVA, RESPONSABILIDADE SOCIAL CORPORATIVA E
DETECÇÃO DE FRAUDE DAS DEMONSTRAÇÕES FINANCEIRAS**

RESUMO

Objetivo: O objetivo desta pesquisa é oferecer uma visão geral de como a responsabilidade social corporativa (RSE), a boa governança corporativa (GCG) e a detecção de fraudes em demonstrações financeiras trabalham juntas para reduzir as demonstrações financeiras fraudulentas.

Referencial teórico: Cressey (1953) mostrou que existem três razões principais para a fraude como é conhecida hoje, são as pressões enfrentadas pelos perpetradores, as oportunidades possuídas pelos perpetradores, a racionalização por trás dos perpetradores.

Desenho/metodologia/abordagem: A análise qualitativa de conteúdo é o método de pesquisa utilizado na publicação de artigos científicos.

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Resultados: Os resultados alcançados chegaram à conclusão de que a fraude nas demonstrações financeiras pode ser diminuída por boa governança, responsabilidade social e detecção de fraude nas demonstrações financeiras. Além disso, os esforços de prevenção e detecção devem ser apoiados por valores éticos e uma cultura corporativa que minimize o uso de demonstrações financeiras falsas. No geral, generalizações podem ser feitas sobre as funções de governança, responsabilidade social e detecção de fraudes nas demonstrações financeiras.

Implicações de pesquisa, práticas e sociais: Algumas regiões são capazes de implementar um bom sistema de governança para que seja eficaz no tratamento de fraudes que ocorrem, e algumas não demonstraram isso. A pesquisa mostra que os elementos de governança que são testados por meio de pesquisas quantitativas ainda fornecem resultados variados. O sistema para a categoria de boa governança corporativa nem sempre dá resultados positivos.

Originalidade/valor: Este artigo é uma contribuição à literatura acadêmica que nos ajuda a compreender os estudos sobre a importância da responsabilidade social corporativa e como identificar a fraude nas demonstrações financeiras para diminuí-la e evitá-la.

Palavras-chave: Boa Governança Corporativa, Responsabilidade Social Corporativa, Fraude nas Demonstrações Financeiras.

BUEN GOBIERNO CORPORATIVO, RESPONSABILIDAD SOCIAL CORPORATIVA Y DETECCIÓN DE FRAUDE EN ESTADOS FINANCIEROS

RESUMEN

Propósito: El objetivo de esta investigación es brindar una descripción general de cómo la responsabilidad social corporativa (RSC), el buen gobierno corporativo (GCG) y la detección de fraude en los estados financieros trabajan juntos para reducir los estados financieros fraudulentos.

Marco teórico: Cressey (1953) mostró que hay tres razones principales para el fraude tal como se conoce hoy en día, son las presiones que enfrentan los perpetradores, las oportunidades que poseen los perpetradores, la racionalización detrás de los perpetradores.

Diseño/metodología/enfoque: El análisis de contenido cualitativo es el método de investigación utilizado en la publicación de artículos científicos.

Hallazgos: Los hallazgos obtenidos llegaron a la conclusión de que el fraude en los estados financieros se puede disminuir mediante la buena gobernanza, la responsabilidad social y la detección del fraude en los estados financieros. Además, los esfuerzos de prevención y detección deben estar respaldados por valores éticos y una cultura corporativa que minimice el uso de estados financieros falsos. En general, se pueden hacer generalizaciones sobre las funciones de gobierno corporativo, responsabilidad social y detección de fraude en los estados financieros.

Implicaciones de investigación, prácticas y sociales: algunas regiones pueden implementar un buen sistema de gobierno para que sea eficaz en el manejo del fraude que ocurre, y algunas no lo han demostrado. La investigación muestra que los elementos de gobernabilidad que se prueban a través de la investigación cuantitativa todavía dan resultados variables. El sistema de la categoría de buen gobierno corporativo no siempre da resultados positivos.

Originalidad/valor: Este artículo es una contribución a la literatura académica que nos ayuda a comprender los estudios sobre la importancia de la responsabilidad social empresarial y cómo identificar el fraude en los estados financieros para disminuirlo y evitarlo.

Palabras clave: Buen Gobierno Corporativo, Responsabilidad Social Corporativa, Fraude de Estados Financieros.

INTRODUCTION

Financial statements serve as a beneficial resource for potential investors, creditors, and other users to help them make informed investment consideration, lending, and other decisions. (FASB, 1978). Financial statements serve the objective of giving users of financial statements information on a company's financial position, performance, and changes (Ikatan Akuntan Indonesia, 2017). Financial statements are used by internal parties and external parties for

decision making, therefore financial statements must provide reliable information and abide by generally accepted accounting standards when presenting financial information.

Fraud exists as a complex and multifaceted phenomenon. One type of fraudulent financial statements is increasing lately. To seek profit and cover up the actual financial condition, one might falsify financial statements by altering transaction data or financial statements during the presentation of financial statement. Based on research conducted by PricewaterhouseCoopers (PwC), economic crime globally dominates more than a third of all criminal crimes.

The Association of Certified Fraud Examiners (ACFE) states that the practice of fraudulent economic and financial crimes occurs in the private, government, banking and public sectors, where the most common cases are in the banking sector and manufacturing industry (ACFE, 2016). In the discussion of the economic crime literature, according to Albrecht et al. (2011) there are two ways to gain profits from other parties illegally: 1) theft and 2) fraud in the form of taking profits by systematically tricking the rules without physical violence.

The destructive effect of fraud itself is considered far more widespread in all aspects than theft. Losses can result in loss of personal income, opportunity costs, social sanctions, and even the poor quality of an infrastructure project due to fraud (Stalebrink & Sacco, 2007). In some cases, financial statement fraud has resulted in concerns about the transparency and accountability of the accounting profession and auditors (Leung, 2005). The shocking collapse of the large corporations Enron and WorldCom in the early 21st century was the result of fraud. Enron fell as a result of the directors' window-dressing and markup efforts on financial statements, as did WorldCom with its accounting scandal of increasing revenue and unethical actions in the form of large loans to the chief executive officer to support personal businesses.

Corruption, the theft of assets, and financial statements falsification are just a few examples of the many sorts of fraud that have a detrimental effect on an organization's overall performance success. No exception, whatever type, form, activity and scale of organization's operations have the same potential risk of fraud. Although there has been an increase in regulations governing fraud, it seems that the level of effectiveness in tackling fraud has not yet been seen (Harjoto, 2017).

The revelations of the Enron and WorldCom accounting scandals have prompted an increased focus on the implementation of corporate governance in various countries. Governance is considered as a control mechanism to protect the interests of various stakeholders from possible deviant actions. FCGI (2001) suggests that a set of guidelines known

as "corporate governance" aims to control how firm management, shareholders, the government, creditors, employees, and other internal and external parties interact in respect to their rights as a result of the company's existence.. The fraud detection mechanism in the company is a control system that is included in good governance practices. Good Corporate Governance (GCG) needs to be viewed holistically so that in the implementation of an organization, the balance between the organization and the individual and the environment is in synergy to ensure that the goals are aligned.

Research on fraud has produced mixed results on how motivations, age, socioeconomic background, advanced financial technology, and several other characteristics affect how likely fraud is to occur (DeLiema et.al 2020). Harahap (2021) stated the magnitude of the ability of an auditor is also balanced with the amount of responsibility in detecting fraud that occurs in the financial statements. In sequence to minimize the use of false financial statements, this article aims to clarify and give a summary of the roles that good governance (GCG), social responsibility (CSR), and the commitment to identifying fraudulence activities. Through a literature review of numerous papers on related topics, this study will get an understanding of its role as an endeavor to prevent and identify fraud.

This raises to the issue, "What is the role of good corporate governance, corporate social responsibility, and detection of financial statement fraud in reducing fraudulent financial statement?" As an approach to answer this problem, this study applies a literature study aimed at providing a description of the role of good corporate governance, corporate social responsibility, and detection of financial statement fraud in reducing financial statement fraud. Therefore, it contributes to the theory of Good Corporate Governance, Corporate Social Responsibility and financial statement fraud. In addition to that, this study describes the development of fraud theory from the fraud triangle theory, the diamond fraud theory, star fraud, and the pentagon theory. The occurrence of fraud can be seen by the indications of fraud, and paying attention to the symptoms of fraud so that the actual occurrence of fraud can be prevented.

LITERATURE REVIEW

Fraud in Corporation

In 2017 a concerning case of accounting fraud emerged at British Telecom. The business experienced accounting fraud in one of its Italian business units (Priantara, 2017). A well-known public accounting firm, namely Price Waterhouse Coopers (PwC), one of the Big Four

was affected and its name was tarnished. As a result, British Telecom replaced PwC with KPMG, another part of the Big Four public accounting firms. PwC was unable to identify the fraud. The occurrence of the fraud arose because the whistleblower reported the fraud. The fraud carried out is to increase the company's income (inflated profits) through the extension of fake contracts and invoices as well as fake transactions with vendors (Priantara, 2017). The accounting scandal had a negative impact on British Telecom's shareholders and investors.

In contrast to the prior year, when PT Garuda Indonesia lost USD 216.5 million, its financial statements for 2018 showed a net profit of IDR 11.33 billion (Hartomo, 2019). Due to disagreements between two PT Garuda Indonesia commissioners about whether the financial statements complied with the Statement of Financial Accounting Standards, the financial report generated controversy. Financial gains from PT Mahata Aero Teknologi are included in PT Garuda Indonesia. PT Mahata Aero Teknologi has a debt for Wi-Fi installation that has not been paid. PT Garuda Indonesia has recognized the debt as income in its 2018 financial statements. PT Garuda Indonesia is subject to sanctions by the Ministry of Finance, OJK (Financial Services Authority), and the Indonesia Stock Exchange.

PT Tiga Pilar Sejahtera Food Tbk (AISA) is suspected of deliberately inflating the receivables value of 6 (six) companies collaborating with AISA (Finance.detik.com., 2021). The total value of the inflated receivables is around 3 (three) trillion rupiah. Manipulation of AISA's 2017 financial statements by inflating the value of receivables. AISA increases the value of these receivables, it is as if sales have increased. AISA's financial statements looked better, so the Bank was interested in providing loans and the stock price also increased. Investors bought shares, even though in reality, the company was not in as good condition as reported in the financial statements. OJK (Financial Services Authority) analyzed AISA's financial statements and found an inflated receivables value of 6 (six) companies that collaborated with AISA. Based on the Capital Market Law of 1995, it is stated that any party who intentionally omits, falsifies or hides information and has the potential to harm the company, is subject to a criminal offense article. Finally, the former directors of AISA were sentenced to 7 years in prison and a fine of 2 billion rupiahs (kontan.co.id., 2021).

Financial Statement Fraud and Fraud Theory Development

Indications of falsification financial reporting (Financial Statement Fraud) are misstatements and intentional concealment of the facts of account's amount in the financial statement. The concealment of facts and misstatement results in misleading financial

information. Financial statement fraud is the deliberate underreporting or omission of relevant information and the use of deceptive accounting practices. The information presented is misleading, it can influence users of financial statements to change their decisions (Rezaee, 2002).

Auditors, managers, employees and examiners can detect falsified financial statements by recognizing the symptoms of fraud called Red Flags and investigating whether these symptoms are true fraud (Albrecht et al., 2011). Furthermore, Albrecht et al. (2011) stated that symptoms can be parted into 6 (six) different classification, namely 1. Accounting anomalies, 2. Weak internal controls, 3. Analytical anomalies, 4. Excessive lifestyles, 5. Unusual conduct, and 6. Tips and complaints. By knowing the signs of financial statement fraud, these type of frauds could be prevented.

The destructive effect of fraud is wider in all aspects than theft. The conditions surrounding fraud at the national and international level are evidence that fraud is still thriving. The war against fraud continues to be carried out through various studies to explain and predict fraud actions so that appropriate efforts can be a solution to fraud. Various theories have emerged since the 1950s and subsequently developed in the context of mitigating fraud.

Fraud Triangle

Cressey's research in 1953 showed that there are three main reasons for fraud as it is known today: 1) pressures faced by perpetrators, such as financial pressure or work pressure, 2) opportunities owned by perpetrators, are opportunities that provide easy access to fraudulent acts, such as: weak control and 3) rationalization behind the perpetrators. In the form of reasons that seem rational for the perpetrators so that the fraudulent actions carried out look correct and reasonable to do.

In 1953, Cressey developed the Fraud Triangle. Three (three) components—pressure, opportunity, and rationalization—are explained by this theory. Pressure is a driving force behind fraud, opportunity is fraud brought on by lax oversight, and rationalization is a justification for current or prior fraudulent activities.

Fraud Diamond

Wolfe and Hermanson (2004), developed the study of Cressey (1953). According to Wolfe and Hermanson (2004), there are aspects of the capabilities or capabilities needed to realize fraud. Without the capabilities of the perpetrators, fraud may be more difficult to carry

out. The theory is that the fraud diamond theory gave an updated interpretation to the role of capability (power) on the risk of fraud. An individual's strategic position in the organization provides wider opportunities for fraud.

The Fraud Triangle theory has a developed and refined form called the Fraud Diamond. The three elements, namely pressure, opportunity and rationalization, are added with ability. Capability is the ability to catch certain situation and recognize it as opportunities which later becomes one of the reason behind the occurrence of fraud.

Fraud Star

Research conducted by Irianto et al. (2012) adds integrity as a trigger factor for fraud. The five factors are: pressure, opportunity, rationality, capability, and integrity. Integrity is an attitude of honesty, courage, wisdom and responsibility towards the obligations and responsibilities it has. The level of integrity that can minimize the need, greed, opportunity and low punishment for corruption (Apriani, 2020).

Pentagon Fraud

The development of fraud theory continues to grow, the fraud pentagon was formulated by Horwath (2010) by adding a fraud triangle with elements of competence and elements of arrogance. Thus, fraud occurs due to five factors: pressure, opportunity, rationalization, competence, and arrogance. The fraud pentagon focuses on fraud committed by top management, in contrast to the fraud triangle, which focuses on middle management (Marks, 2014).

Marks (2014) also adds the two additional crucial elements of competence and arrogance. The integration of these two components led to the creation of the Crowe Fraud pentagon, a new model and way of thinking. Marks (2014) describes each of these elements as follows: pressure, opportunity, rationalization, competence or skill and arrogance.

Competence is the capacity to reject or ignore internal controls, create a sophisticated cover story, and manipulate social settings for one's own gain and/or to profit from others. Arrogance is a superior attitude coupled with rights or avarice and the conviction that one is exempt from internal supervision. A person may be persuaded to commit fraud or deception by any one aspect alone or in conjunction with others. A big part of supporting fraud or deception is having traits of competence and arrogance.

Good Corporate Governance and Fraud

Good governance or commonly known as Good Corporate Governance is a good system relationship consisting of the structure, rules and processes themselves. It aims to create an order that can regulate and take charge of businesses sequentially to fulfill the rights and obligations of stakeholders in a broad sense. Stakeholders are generally shareholders, management, creditors, government, employees, internal and external stakeholders in relation to binding rights and obligations.

A system of good corporate governance can add value for all parties involved if it's regulated appropriately, based on fairness, transparency, accountability, and responsibility. In a narrow sense, it increases the company's worth, financial performance, investor confidence, and reduces the risk of those who have information to benefit themselves (Tjager et al., 2003).

The role and aim of GCG is very clear against the symptoms of fraud that appear in the company. Theoretically, companies with good governance have very little or no fraud that occurs in the company. However, GCG is not only in the form of structures and binding rules, but includes processes in which interested parties in their activities continuously play a role there.

Financial Report Fraud Detection

The financial position and performance of a business are presented in financial statements in a systematic manner. Financial statements serve the function of giving users useful information regarding an entity's financial position, performance, and cash flows. Financial reports are used as a communication tool to provide information on business activities over a certain period of time. The information content in the financial statements must provide dependable information. Company management should provide clean financial information, no misstatements and no fraud.

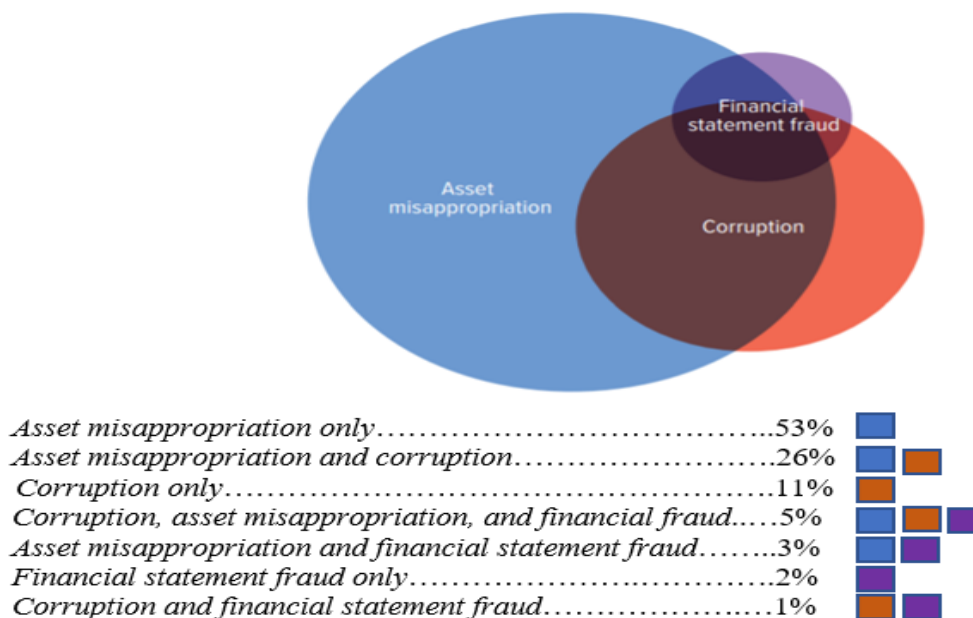
The Indonesian fraud survey by the Association of Certified Fraud Examiners 2019 (ACFE, 2020a) disclosed that the most fraud in Indonesia is first, corruption, which is 69.9% of 167 cases. The second is the misuse of state and company assets/wealth by 20.9% of the 50 cases. The third is financial statement fraud, which is 9.2% of the 22 cases.

Fraudulent financial statements are increasing in recent times. The Association of Certified Fraud Examiners (ACFE) states that the practice of fraudulent economic and financial crimes occurs in the private sector, government, banking and the public sector. Nonprofit organizations are exposed to a higher risk of fraud because less resources are available to help

prevent and recover from fraud and the losses it causes (AFCE, 2020b). Furthermore, the most common scheme according to Industry, there are 50 cases reported. The health care sector is cited by ACFE (2020a), where 33% of instances involve a billing scheme and 40% of cases involve corruption.

According to one-third of ACFE research cases (2020a), fraudsters frequently commit in more than one of the three major types of job fraud. As shown in Figure 1, fraudsters commit asset misappropriation and corruption by 3% of assets and falsified financial statements, corruption and fraudulent financial statements by 1%, and then 5% are involved in these three categories.

Figure 1. Cheating



Source: ACFE (2020b).

Corporate Social Responsibility and Fraud

Research on CSR and fraud has been carried out by many accounting researchers. Hu et al. (2019) the results of their research shows that after managing the company’s quality and corporate governance component, disclosure of CSR details can lessen the phenomenon of corporate fraud. The publication of CSR reports decreases the information asymmetry between insiders and stakeholders, thereby reducing the potential for fraud to occur.

Harjoto (2017) researched about Corporate Social Responsibility and fraud. His study's findings indicate that businesses with a higher and stronger commitment to CSR exhibit less corporate fraud. This demonstrates that fraud is less likely to occur in businesses that are more connected to the community, employees, the environment, and CSR. On the other hand,

companies with different levels of community, employee, environmental and CSR-related products have a lower probability of fraud.

Liao et al. (2019) examined CSR and financial fraud evidence from China. The results of his research show that strong CSR can lessen the occurrence of corporate financial fraud in China. This demonstrates that the stronger and higher CSR, the lower the level of corporate financial fraud.

METHODOLOGY

Qualitative content analysis is the research methodology applied in this study. Content analysis refers to the procedure of reading a document systematically including it, noting the consistent characteristics of the document, and then coming to conclusions regarding the purpose and meaning of the document (Hall & Wright, 2008). Qualitative content analysis was conducted to obtain a broader picture in relation to fraudulent acts of financial statements with the mechanisms and rules applied in the company in the form of governance (GCG). In addition to GCG, fraud detection systems and the implementation of social responsibility are now recommended for companies.

Content analysis is carried out using articles that have been published in academic journals and by adding other relevant intellectual sources. The research articles that were collected were 53 research articles from Indonesia and abroad. The research articles were documented, observed, analyzed and concluded. Studies on the identification of fraud in financial statements, the implementation of governance (GCG), and social responsibility (CSR) in relation to the incidence of fraud in firms or organizations are the literature themes considered in the content analysis of this research.

The coding scheme focuses on three system categories in the form of linking falsified financial statements with the contribution of governance mechanisms and fraud identification and social responsibility. Coding is done on each article and focuses on reading holistically. There were also discussions on several articles that were difficult to obtain a common point of view and the aptness between the data with the analysis (Patton, 1990). The flow of the research carried out is as follows (see Figure 2):

Figure 2. Research Flow



Source: Data processed by Researcher

ANALYSIS AND DISCUSSION OF RESULTS

Based on the articles obtained, it shows that fraud in companies (corporations) is still very relevant to be discussed and has become the center of public attention including academics, regulators, investors, and the company's board of directors. This article's goal is to give a general overview of the role that good corporate governance, financial statement fraud detection, and corporate social responsibility play in the issue regarding reduction of financial statement fraud. The articles collected were 53 articles obtained from scientific publications and other relevant sources.

Research Related to Fraud Detection of Financial Statements

In the category system for detecting fraud in financial statements, the research is divided into two major groups, namely quantitative research and qualitative research groups. Quantitative research has a tendency to be in the area of detection rather than prevention of financial statement fraud. The fraud theory that has developed is the fraud pentagon (Siddiq et al., 2017; Rusmana & Tanjung, 2019; Novita, 2019), fraud diamond (Prayoga & Sudarmaji, 2019) components of the control system and corporate governance (Wijaya, 2016; Bakri et al., 2017; Idawati, 2020) with various elements of fraud-sensitive financial statements. Overall, the variables used still provide different findings on the level of effectiveness in each study (Dechow et al., 2011) depending on the time, the area studied, the country concerned and so on.

Qualitative research has a wider scope of discussion. Qualitative studies tend to reveal, explore, and develop conceptual analysis over a wider time span where fraud is associated with various conditions ranging from the past, present, and future to obtain a more comprehensive

overview of overcoming fraud and what is related to fraud. This is also done to develop or extend the fraud theory that has developed, such as the implementation of the crime triangle theory with the theory of routine activities (Mui & Mailley, 2015).

An interesting analysis was also carried out by Andon et al. (2015) by highlighting four paths that make accountants commit fraud, namely the crisis response path, opportunity taker, opportunity seeker, and deviation seeker. This becomes an addition to the special fraud triangle element in the accountant fraud path. Furthermore, along with technological developments, challenges increase in the emergence of Artificial Intelligent (AI) which is often associated with systems that think and act like humans, including rational actions (Yeoh, 2019). The existence of AI systems is feared to turn against the public, including sophisticated financial crimes (Forwood & Bolton, 2018).

Research Related to the Role of Governance in Fraud

The existence of fraud correlates with the governance system used by an organization. Regulations on governance and control systems have become more stringent since several scandals in the early 21st century and in 2007 occurred. Various studies have been conducted to examine how effective governance performance is in ensuring that the company remains on track and pays attention to its stakeholders.

The presence of an audit committee and elements of governance still does not provide consistent results, including an audit committee that is effective against the lack of fraud (Law, 2011), as well as not playing a significant role in the incidence of corporate fraud (Abdullah & Said, 2019). There are also efforts by companies with a track record of fraud to have a tendency to increase the proportion of independent directors, the frequency of board meetings, and audit committees and reduce their duality. This shows that companies with fraudulent financial statements make changes to their corporate governance mechanisms following the pattern of fraudulent financial statements in their companies.

A study conducted by Tan (2015) investigated governance failures that have an effect on the phenomenon of fraud in Australia. This is because the governance structure only refers to information on public and private companies and is not in accordance with the corporate culture. Therefore, adjustments as well as strengthening in governance are less effective or have no effect on company results. These studies contribute to regulators so that the goal is to obtain quality financial reports and be free from fraudulent acts.

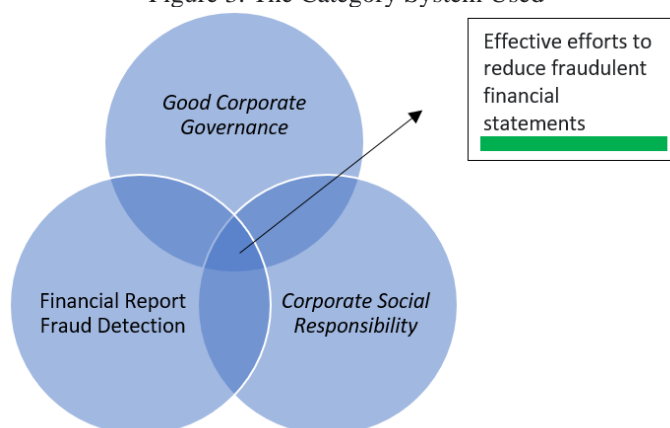
Research on the Role of CSR on Fraud

Research on CSR and financial statement fraud cannot be separated from various multidisciplinary studies. In his 2017 study, Harjoto combined research on corporate culture, CSR, and the theory of cognitive moral development in organizations with literature on fraud that occurs in businesses. The hypothesis that is built is that organizational culture reflected in CSR activities is able to reduce the severity of fraud. This hypothesis is based on the social psychology theory that contends that every unethical choice made by an individual is impacted by ethical standards that emerge within the company. The findings support this hypothesis. However, contrary to research by Liao et al. (2019), although CSR is a form of ethical behavior that can reduce financial fraud, empirical evidence in China shows a negative correlation between CSR activities along with financial fraud. In other words, companies that disclose CSR have a tendency to be involved in corporate fraud.

Whether CSR contributes to financial fraud or only as a cover for criminal acts, Hu et al. (2019) examine two opposing hypotheses about CSR reports issued as reducing fraud risk or vice versa as “windowdressing”. The results of this study demonstrate that management and stakeholders have less knowledge asymmetry when CSR reports are published, thereby playing an influence in reducing the tendency to perform fraud. However, the implementation of CSR in companies that have committed fraud raises different attitudes among consumers (Harrison & Huang, 2020). Consumers are divided into two, those who are positively oriented towards CSR and those who are not. The result, basically the attitude of consumers towards CSR is positive with the company’s evaluation, but the perception becomes negative after the company has a fraud case. Likewise, consumers who feel they pay more to the company, will increasingly provide a strong relationship between negative evaluations of post-fraud CSR publications.

Other studies attempt to align greenwashing, which is often known as corporate camouflage (Michelon et al., 2016) with fraud (Kurpierz & Smith, 2020). Kurpierz sees that current CSR reporting continues to develop following fraud prevention tools along with the development of obligations that must be fulfilled in sustainability reports. Visualizing greenwashing as a form of fraud as well, researchers can see through a new lens how information asymmetry in CSR publications works. Thus, it can become a consideration for policy makers.

Figure 3. The Category System Used



Source: data processed by the researcher

Effective efforts to reduce fraudulent financial statements continue to be carried out by researchers, policy makers, as well as organizations and companies. Various multidisciplinary studies were conducted in an effort to reduce financial statement fraud. Empirical testing still gives varying results, ethnic conditions, geography, culture and time of study affect the results differently. Overall, the results cannot be generalized whether the role of good corporate governance (GCG), detection of financial statement fraud, and corporate social responsibility (CSR) have been able to reduce fraudulent financial statements. The important thing is that individual moral ethics is a determinant of the culture of an organization (Arens, 2008) and determines the tendency of fraudulent actions. Therefore, all forms of control systems need to be balanced with an understanding of fraud and the moral strengthening of each individual.

CONCLUSION

The aim of this research is to describe the influence of good corporate governance, financial statement fraud detection, and corporate social responsibility in reducing fraudulent financial statements. Of the 53 articles collected from scientific publications and analyzed through qualitative content analysis, results that cannot be generalized are obtained. The results of the data from the report fraud detection category system that describe quantitative studies tend to describe the fraud detection model of financial statements through sensitive elements, while qualitative studies explore more theories about fraud with other interdisciplinary theories, through studies with a wide time span.

Preventive efforts are very important to prevent the potential of misled financial statements. The system for the category of good corporate governance, too, in tightening regulations on governance, does not always give positive results in reducing fraudulent

financial statements because loopholes for perpetrators can still be found. The elements of governance that are tested through quantitative research still give varying results. In this case, some regions are able to implement a good governance system so that it is effective in handling fraud that occurs, and some have not shown this.

Throughout the progress of data collection, it has been found that some of articles are inaccessible, which consequently reduces the article used in the study. The difficulties in data access has resulted in the decrease of sample size. Apart from that, there are no major adversity that affects the study.

Although little can be said about the difficulty during the process, there are always room for improvements. As future studies, it is suggested to increase the sample size to around 100 to minimize the margin of error. Expanding the sample size will increase the variability in the population, resulting for enhanced accuracy rate.

It can be concluded that the occurrence of fraud is closely connected to individual moral ethics and culture within the organization. Furthermore, the role of CSR contributes to the reduction of financial statement fraud through empirical tests carried out. CSR is still widely seen as fulfilling obligations and forming a corporate image. Thus, the roles of good corporate governance, detection of fraudulent financial statements, and corporate social responsibility take their respective roles in an effort to reduce fraudulent financial statements.

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