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# Fraud Problems in International Company Financial Reports

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***Abstract.*** *This research aims to determine the factors that cause fraud in financial reporting by reviewing literature relating to false financial reporting in agencies or organizations, especially in the scope of public work. The population used is financial reporting at several international companies in 2019-2024. The data analysis technique uses comparative analysis where the researcher compares 2/more objects to find out the differences and similarities in a study by applying a meta study to explain the analysis of previous research results. The sample in the research used a purposive sampling method where sampling was based on the author's considerations. The results show that the occurrence of fraud/fraud in financial statements is caused by several factors in accordance with the fraud triangle theory where there are 3 factors that cause individuals/groups to commit fraud/cheating, namely pressure, opportunity, and justification/rationalization so that a person/group assumes that fraud is a normal action and occurs in many companies.*

***Keywords*** *: Fraud, Financial Reports, Triangle theory.*

## BACKGROUND

Fraud is a form of manipulation and misuse of financial data in financial reporting carried out by individuals/groups within companies/organizations with the aim of gaining certain profits. Fraud in financial reporting has a negative impact on the transparency and accountability of financial reports so that it can influence decisions taken by users of financial reports, including management, investors, creditors and others. Fraud has occurred for a long time and can cause financial losses and damage a company's reputation. This is due to personal desires, opportunities and certain desires that can be detrimental to other people.

The Fraud Triangle Theory, which was first introduced by Donald R. Cressey (1993) , explains that the factors causing fraud are pressure, opportunity and rationalization. The accounting department must provide financial information in financial reports by presenting financial reports that are clear and easy for users to understand. This aims to serve as a reference for investors whether to continue investing in the company or not. So an audit is needed both by internal and external audit to measure transparency and fairness in the company's financial reporting so that as an auditor you must have independent & responsible principles if you detect fraud.

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In several cases, internal and external auditors often detect *fraud*, but collaborate or collude with several clients so that they do not report irregularities that cause harm to others and influence the decline in individual morality. Government agencies or organizations also have moral responsibilities. This responsibility influences the occurrence of fraud ( *Fraud* ). The lower a person's morals are assumed to encourage fraudulent actions.

Controlling the occurrence of fraud is the company's responsibility so that the anti-fraud culture in the company can be minimized by implementing several programs, including strengthening the accounting information system, increasing individual morality, and socializing anti-fraud and its impact on internal and external employees of the company. In addition, to minimize financial report fraud and facilitate the disclosure of financial report information, companies/organizations need to design a specific fraud risk control system.

In the current era, there are many tools and methodical approaches to detect fraud in financial reporting, one of the very good tools for measuring fraudulent financial reporting is measuring using Deep Learning and Machine Learning. This tool aims to ensure that fraud can be detected from the start before it causes more significant problems for users of financial reports.

In previous research, it was (Dalnial, Kamaluddin, Sanusi, & Khairuddin, 2014)concluded that leverage can significantly influence financial statement fraud. According to research (Phong, Tam, & Tung, 2024), it is clear that the application of deep learning and machine learning helps detect fraud in financial reports. Therefore, this research aims to review the literature relating to fraud and false financial reporting, apart from that this research can also help future researchers as well. Fraud can have a significant impact on agencies or organizations, especially in the scope of public work.

## THEORETICAL STUDY

### Auditing

ISA (International Standard on Auditing) Based Auditing Standards are a reference that directs auditors in fulfilling their professional responsibilities in auditing financial reports. According to the Committee of Auditing Concepts, Auditing is a systematic process of evaluating evidence objectively to determine the suitability of statements according to established standards to be submitted to interested parties. According to (Ratnawati, Hidayat, Amiranto, & Correia, 2024)Auditing, auditing is a procedure for examining financial reports which consists of examining evidence of transactions, compliance with applicable accounting standards, and examining the accounting information system to assess the company's internal control. In auditing, auditors must provide an audit report to assess whether the company reports the financial statements are fair or there is fraud in the financial statements. According to (Hwihanus, 2019)auditors, they must provide an honest opinion in assessing financial reports in accordance with applicable standards and law enforcement in each country.

**Fraud**

According to (Albrecht, Albrecht, Albrecht, & Zimbelman, 2006)fraud, it is a method designed by human ingenuity with the aim of gaining an advantage over others with false representations. According to the Association of Certified Fraud Examiers (ACFE), fraud is an action carried out by individuals/groups intentionally to enrich themselves by misusing assets. and resources of a company/organization. In general, fraud is an unethical action by certain individuals to gain illegal profits by deceiving and harming other people.

**Fraud Triangle Theory**

Fraud Triangle is one of the factors that causes fraud to occur (Buchholz, 2012). The Fraud Triangle explains that there are three factors that cause fraud, namely pressure, opportunity and rationalization.


Figure 1. Fraud Triangle

Pressure factors are the initial motivation for a person/group to commit fraud, for example if someone has an economic problem that cannot be resolved so they have to commit fraud by stealing money or manipulating financial reports. The second factor is the opportunity caused by a weak internal control system so that a person/group can commit fraud. The third factor of rationalization is that perpetrators seek the truth about the actions they commit so that the perpetrators assume that the actions they commit are actions that do not violate the law and are reasonable to do.

**Accounting information system**

An Accounting Information System (AIS) is a system created with the aim of collecting, storing and displaying company financial information. Steven A. Moscov believes that an Accounting Information System is a system that functions to collect, classify, process, analyze and communicate financial information as a basis for decision making by internal and external users. According to (James A Hall, 2011) there are three subsystems in the accounting information system (1) System for processing transactions in the form of reports and documents required by users (TPS), (2) General ledger/financial reporting system (GL/FRS) which is useful to produce financial reports according to applicable standards, (3) Management Reporting System (MRS) for the needs of management in making decisions.

According to (Kustiwi & Hwihanus, 2023)COSO (The Committee of Sponsoring Organizations of the Treadway Commission) it is a framework guideline to assist companies/organizations in designing, implementing and assessing internal controls so as to help prevent, detect and manage risks related to fraudulent financial reporting. COBIT ( Control Objectives for Information and Related Technologies) is a framework to help companies ensure the quality, control and reliability of information systems effectively. Meanwhile, the enterprise risk system (ERM) is an approach to identifying, assessing, managing and controlling risks that occur within the company.

According to (Cholissodin, Sutrisno, Soebroto, Hasanah, & Febiola, 2020)Deep Learning, it is a branch of machine learning with a high-level modeling algorithm approach to data using a set of non-linear transformation functions that are arranged in depth so that they can be applied through image recognition, sound, text classification, and so on. Meanwhile machine learning is a branch of AI (In this research, the population is taken from international company data in each country according to the journal. The data analysis technique uses comparative analysis where researchers compare 2/more objects to find out the differences and similarities in a study by applying meta studies analysis to explain the results of previous research. The sample used in the research used a purposive sampling method where the sample was taken based on the author's considerations. The sample used was 5 journals taken from Google related to fraud in financial reporting in several international companies in 2019. 2024

## RESULTS AND DISCUSSION

Based on the results of several journals with a meta analysis approach, it can be seen that the occurrence of fraud in financial reports is caused by several factors in accordance with the triangle theory of fraud developed by Cressey (1983) where there are 3 factors that cause individuals/groups to commit fraud caused by pressure/pressure. Pressure, opportunity, and justification/rationalization so that a person/group considers fraud to be a normal action and occurs in many companies.

Another factor that allows fraud to occur is Leverage which is proxied by total debt to total equity which is one of the factors for analyzing fraud in financial reporting so that companies with a high value of total debt to total equity have a greater possibility of being classified as fraudulent companies. This is because a high leverage ratio greatly affects the company's financial performance and increases financial risk which results in the company's financial instability. This is in line with research (Dalnial, Kamaluddin, Sanusi, & Khairuddin, 2014)showing that total debt to total equity influences the existence of fraud in financial reporting.

Furthermore, the factors that influence fraud are internal and external auditors who do not comply with audit principles and procedures, where as an auditor you must have independent principles in disclosing information transparently so that the quality control of accounting firms needs to be strengthened. It can be seen that most accounting firms have deficiencies in standard setting, personnel management, and accounting information systems. This research is in line with research conducted. (Wang & Wang, 2022)The results show that accounting firms are more likely to be involved when their client companies commit financial statement fraud (rather than information disclosure violations), income statement fraud (compared to other statement fraud), fraud during the IPO process, for a longer period of time and with larger amounts of money.

In the current era, there are many systems that help companies detect fraud within the company. in Indonesia Auditors use COSO ( *The Committee of Sponsoring Organizations of the Treadway Commission* ), COBIT ( *Control Objectives for Information and Related Technologies* ), and ERM (Enterprise Risk Management).

In China, Deep Learning and Machine Learning are used with the ANN ( *Artificial Neural Network* ) , SVM ( *Support Vector Machine* ), RF ( *Random Forest* ), AUC ( *Area Under Curve* ), XGBoost (eXtreme Gradient Boosting) methods. This is in line with research conducted by (Phong, Tam, & Tung, 2024)that shows that identifying problematic financial reports based on abnormal cash flows is quite effective with an accuracy of above 78% for the SVM method, whereas if using the RF method the accuracy reaches above 82%. Meanwhile, in Jordan the use of FA ( *Forensic Accounting* ) techniques is very helpful in detecting fraud in financial reporting. This is in line with research (Alharasis, Haddad, Alhadab, Shehadeh, & Hasan, 2023)shows that while FA has the potential to be a powerful tool in mitigating financial fraud, its implementation in Jordan is still not optimal.

Based on the Meta analysis above, it can be seen that the occurrence of fraud in financial reports is caused by Leverage which is proxied by total debt to total equity, which is a significant result as an indicator for fraud analysis. Furthermore, this means that companies with a high total debt to total equity value have a greater possibility of being classified as fraudulent companies (Dalnial, Kamaluddin, Sanusi, & Khairuddin, 2014)This is in accordance with the triangle theory of fraud where there are 3 factors that cause individuals/groups to commit fraud, namely pressure, opportunity, and justification/rationalization so that a person/group considers fraud to be a reasonable action to carry out and occur in many companies.

Meanwhile, according to (Uwah, Aji, & Iniabasi, 2023)shows that leverage has a negative relationship with FFS and is not significant. This is because the calculation of the ratio of total liabilities to total assets does not have a significant effect on the detection of financial statement fraud.

According to (Alharasis, Haddad, Alhadab, Shehadeh, & Hasan, 2023)the results, the application of the FA technique helps in detecting and preventing fraud, but in the research object the technique has not worked optimally because there are inhibiting factors. while According to(Xiuguo & Shengyong, 2022) shows the application of a deep learning model with the RF (Random Forest), SVM (Support Vector Machine), ANN (Artificial Neural Network), CNN (Convolutional Neural Network) and XGBoost (eXtreme Gradient Boosting) methods to help detect fraud and increase accuracy. data in financial reports. Apart from that, According to (Phong, Tam, & Tung, 2024)shows that machine learning and deep learning help in identifying problematic financial reports based on cash flows with different accuracy in each model.

(Wang & Wang, 2022)The results show that accounting firms are more likely to be involved when their client companies commit financial statement fraud (rather than information disclosure violations), income statement fraud (compared to other statement fraud), fraud during the IPO process, for a longer period of time and with larger amounts of money. big.

## CONCLUSIONS AND RECOMMENDATIONS

Based on the results of the discussion above, it can be concluded that the factors that are the main cause of fraud are influenced by the fraud triangle, thereby encouraging a person/group to commit fraud. secondly, the cause of fraud is that a high leverage ratio greatly affects the company's financial performance and increases financial risk which results in the company's financial instability so that a high value of total debt to total equity has the possibility that a company will be identified as having committed fraud. thirdly, there is cooperation to commit fraud. carried out by public accounting firms with their clients, so it is necessary to control the quality of accounting firms which is carried out through setting standards, personnel management and accounting information systems. For this reason, strict supervision is needed so that fraud can be minimized by companies and financial reporting reveals transparent information by strengthening the system. accounting information and other systems that help detect fraud such as COSO, COBIT, ERM, Deep Learning, Machine Learning, and others.

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