



Factors and Risks Causing Fraud in Various Countries: Comparison Between Sectors and Regions

Delila Pandora Harlaxienty, Kurnia Illa Allodya Dinara, Hwihanus

Universitas 17 Agustus 1945 surabaya

1222200076@surel.untagsby.ac.id, 1222200095@surel.untagsby.ac.id,

hwihanus@untagsby.ac.id

Address : Jl. Semolowaru No.45, Menur Pumpungan, Sukolilo District, Surabaya, East Java 60118

Korespondensi email : 1222200076@surel.untagsby.ac.id

Abstract. *This study aims to analyze the factors and risks that cause fraud in various countries with comparisons between sectors and regions. Using Qualitative method: Meta analysis based on five journals related to fraud (Fraud) in various countries. The purpose of using the meta-analysis method, the method is used to integrate data from different studies so that it can provide more accurate results, rather than the results obtained from a single study, and seeks to understand the mechanism, several factors that may affect the occurrence of fraud in various countries and sectors, including the existence of organizational justice, internal control, opportunity, pressure and rationalization. The results show that fraud is a global problem that requires international solutions, and cooperation between countries and internal communication are indispensable in building a system that can fight organized financial fraud globally. This study aims to provide a deterrent effect, minimize fraud losses and improve control systems. The results of this study are expected to contribute to further understanding of the factors that influence the occurrence of fraud in various countries and sectors, and provide recommendations for preventing and overcoming fraud in various regions.*

Keywords: *Factors, Fraud, comparison, economy.*

BACKGROUND

Pressure, Opportunity and Rationalization, also known as the "Fraud Triangle", are factors that affect the occurrence of fraud. Pressure is the drive that makes a person commit fraud, because of the pressure experienced, either pressure from within themselves or financial pressure. Opportunities occur due to a weak control system of the company, organization, or a weak control system for oneself, so there is a chance of "Fraud".

Financial fraud or commonly known as "Fraud" is a global phenomenon that causes huge losses for investors and weakens the efficiency of resource allocation and the functioning of the securities market (Kong et al., 2021). Many cases of financial fraud have occurred and been exposed, both on a national and international scale. One of the most well-known examples is the "Lehman Brothers Scandal" accounting fraud case.

Where the case occurred because a global financial services company hid loans with an amount of more than 50 billion US dollars that were disguised as if they were sales. They took advantage of the loophole in accounting standards regarding buyback agreements, by selling risky assets to banks in Cayman Island, knowing that the assets would eventually return to them. In September 2008, the scandal came to light when Lehman Brothers reported its bankruptcy.

Received: May 30, 2024; Accepted: June 20, 2024; Published: June 20, 2024;

* Delila Pandora Harlaxienty, 1222200076@surel.untagsby.ac.id---

Fraud cases are one of the things that are highly highlighted in the field of Accounting Economics, the opening of a few gaps in a regulation or even a gap in the company itself, the chance of fraud will also be great. Detecting fraud is not always easy, because the threat can come from various sectors, not only in the part that controls the finances of an entity but various sectors can have the opportunity to commit financial fraud or fraud, even investors who are known to be a high-minded and broad person who is used to being involved in the field of funding a project where of course they will be able to estimate whether the project is worthy of funding Development or not, there will still be a chance of being deceived, this often happens due to financial fraud by the company or entity.

The "Bernie Madoff Scandal" is another example of fraud that occurred in the United States and became one of the largest financial frauds in the United States. Founded by Madoff himself, Bernard Lawrence or known as "Bernie" Madoff, a successful American businessman who ran a Ponzi scheme with a value of billions of US dollars, the Ponzi scheme defrauded investors of \$64.8 billion. In 1960, Bernard L. Madoff Investment Securities LLC, which was founded by Madoff himself, also held the position of chairman of the company until his arrest on December 11, 2008.

At that time, even Bernard Lawrence's company became the leader in the NASDAQ stock exchange sector for three consecutive years. At the time of his arrest, it was known that his company managed more than 37,011 investors who had invested billions of dollars, which became one of the biggest and worst accounting scandals of its time. Madoff was handed over by his own children to the authorities. Madoff was found guilty and sentenced to 150 years in prison and given a restitution bill of 170 billion US dollars.

From this explanation, it can be seen that the threat of fraud can have an impact on considerable losses to a group, entity or even an individual. The China Securities Regulatory Commission (CSRC) has discovered increasingly complex and covert fraudulent methods, which are often revealed after significant losses have occurred (Dyck et al., 2010). Detecting financial fraud is a challenge, especially in the context of the COVID-19 pandemic, which has created systemic financial risks and raised concerns about a global economic slowdown (Zhu et al., 2021). Companies may be more likely to engage in financial fraud due to incentives from opportunistic venture capitalists (Que and Zhang, 2019).

Detecting financial fraud remains an important and challenging task for an accountant, auditor, and regulator professional. However, analyzing structured financial data is quite tedious and seems rigid, while financial fraud tactics are increasingly sophisticated and varied. In addition, financial data whitewashing methods are mature, and analytical procedures that

only use financial data tend to be ineffective in detecting fraud (Zhang et al., 2022). As such, report users should also consider the additional information included in a financial statement.

RESEARCH METHODS

This study applies a meta-analysis approach to synthesize findings from five international journals that are relevant to the keyword "Fraud". The literature search process is thorough through leading academic databases such as Science Direct, and Scopus. With an emphasis on publications that include aspects of fraud. The selection of journals is carried out based on strict inclusion criteria, taking into account the quality of the research methodology, relevance, to the research topic and suitability with the research objectives. Once the appropriate journals are identified, the researcher systematically extracts data from each article including the purpose of the study. Once the appropriate journals are identified, researchers systematically extract data from each article, including the purpose of the study, the research methods, the main findings, and the implications of the research results.

This approach is expected to provide an overview of how important the risk factors for fraud events in various countries are. This analysis takes into account variations in the methodology approach and the context in which the research is conducted. By analyzing the findings of each journal, researchers can identify and draw conclusions from this meta-analysis showing that the most important fraud risk factors vary between sectors and regions. Therefore, a more specific and contextual analysis is needed to understand the most important fraud risk factors in each region.

RESULTS AND DISCUSSION

The "Fraud Triangle" theory developed by Donald R. Cressey explains the possibility of fraud or fraud in an organization, entity, or group. This theory consists of three main factors: pressure, opportunity, and rationalization. The following is a conclusion about the Fraud Triangle, factors, and risks of fraud:

The Fraud Triangle explains that financial fraud or fraud can occur when a person meets three conditions: pressure, opportunity, and rationalization. What does it mean?, Pressure is related to the intention to commit fraud, opportunities occur because of loopholes in the internal control system, and rationalization is carried out by the perpetrator of fraud to convince himself that the actions taken are not wrong.

The factors that affect the occurrence of fraud are pressure, opportunities, and rationalization. Stress can be financial problems, personal problems, or work problems.

Opportunities arise due to gaps in the internal control system, such as lack of oversight, lack of transparency, or lack of internal control. Rationalization is carried out by the perpetrator of fraud to convince himself that the action taken is not wrong, such as the justification that he needs to do it in order to maintain the business or to maintain a position in the job.

In fraud risk analysis, the inter scale can be used to assess the level of risk based on the level of pressure, opportunity, and rationalization that occurs in an organization. This scale can support the identification of factors that affect the occurrence of fraud and in developing strategies to prevent it.

Case report on enormous economic losses caused by fraud from Japan to the world

An in-depth analysis of the enormous economic impact of fraud in various countries, including Japan, the United States, the European Union, the United Kingdom, and Moldova. This scam involves various schemes, one example of large-scale financial fraud in the US is fraud related to the COVID-19 Virus disaster relief, reports show that fraud was carried out in the amount of hundreds of billions of US dollars. The money should be distributed to small business actors affected by the pandemic.

Digitalization and digital governance are very important in efforts to reduce fraud. Digitalization involves the introduction of digital technologies in government operations, while digital governance includes the systems and rules necessary to ensure an accountable and secure digital presence. The use of artificial intelligence (AI) to detect and mitigate fraud is indispensable. AI is able to verify and validate information based on rules set by humans, thereby reducing the chance of fraud.

Although research on fraud detection using AI is already growing, real implementation in the field is still lacking. Many countries, including Japan, have not effectively used AI to combat fraud. There is a huge gap between fraud detection research and its application in real government. To reduce fraud, there needs to be an increase in the use of digital technology and AI.

In Japan, digitalization and lagging digital governance make the country vulnerable to fraud. An example is the incident of sending COVID-19 relief funds incorrectly because it still uses old technology such as floppy disks. Fraud related to COVID-19 aid in Japan also includes the arrest of a man in Indonesia who was involved in a COVID-19 relief fund scam, showing how fraud can be cross-country.

Fraud is a global problem that requires international solutions. Cooperation between countries and the international community is essential in building a system that can fight globally organized fraudsters. This article emphasizes the need to share tools and resources

between countries to effectively combat fraud. The government needs to accelerate the digitization process to ensure that data and transactions can be monitored and verified more effectively. The implementation of AI in government systems to detect and prevent fraud should be improved, as AI can help in automated validation and detection of anomalies that may indicate fraudulent activity. Countries must also work together to share knowledge, tools, and strategies in combating fraud, including the establishment of common policies and frameworks for international law enforcement.

Additionally, raising awareness among the public and governments about the importance of digitalization and the use of technology to combat fraud is essential. Education about the dangers of fraud and how to prevent it also needs to be improved. Fraud causes enormous economic losses and becomes an increasingly complex problem with technological developments. Governments and the international community must take proactive steps to strengthen their digital systems and adopt AI technologies to reduce the risk of fraud in the future.

Textual analysis and detection of financial fraud: Evidence from Chinese manufacturing firms

Discussing the importance of text analysis in detecting increasingly complex and hidden financial fraud, focusing on 579 manufacturing sector companies listed in China in 2020, using language indicators of structure, quality, and expression in discussion texts and management analysis (MD&A) to detect financial fraud. The main findings of the study show that companies involved in fraud tend to be more cautious in their financial reporting, reduce the expression of positive sentiment, and hide fraud by increasing the complexity of their annual reports as well as using more adverbs to modify forward-looking information.

The results of the study show that companies that commit fraud tend to be cautious in their financial reporting. They reduce the expression of positive sentiment and hide fraud by increasing the complexity of their annual reports. In addition, these companies tend to use more adverbs to modify forward-oriented information. This means that deceptive companies usually make their reports more difficult to understand and use language that can mask the truth.

The article also highlights that textual indicators such as readability, similarity, and degree of matching of information in the MD&A text, when combined with financial indicators, can improve the accuracy of financial fraud detection. The XGBoost model was shown to have the highest recognition accuracy in this study, compared to the logistic regression model and multilayer perceptron neural network (MLP NN). The study concluded that language expression in MD&A texts is important to consider in detecting financial fraud,

both in state-owned and non-state-owned companies. Thus, this article makes a significant contribution to the literature by showing that multidimensional analysis of language characteristics can be helpful in detecting financial fraud more effectively.

The main conclusion of the study is that language expression in MD&A text is crucial in detecting financial fraud, it is confirmed that both state-owned and non-governmental companies can show similar signs of fraud in their annual reports. Therefore, a multidimensional analysis of the language characteristics in a company's annual report can be a very effective tool for detecting financial fraud. A significant contribution to the literature by showing that careful analysis of the text can be helpful in detecting financial fraud will be more effective. To conclude how important modern technology and analytical methods are in improving transparency and accuracy in corporate financial reporting. With the wider application of text analysis and machine learning methods, it is hoped that financial fraud can be better identified and prevented, which in turn will increase trust and integrity in the global financial markets.

Understanding the rise of fraud in England and Wales through field theory: Blip or flip?

The increase in fraud in England and Wales through field theory is outlined with the explanation that financial fraud is not only about legal issues, but also social phenomena that are influenced by various forces in society. Field theory is used to understand how various actors and social structures interact and create the conditions that allow fraud to occur. The study highlights several factors that contribute to the increase in fraud, including technological developments, economic changes, and social shifts. Technology, for example, provides tools for fraudsters to commit crimes more sophisticated and on a larger scale. Economic changes, such as financial instability, also encourage individuals to commit fraud as a way to survive or achieve quick profits.

The importance of collaboration between various institutions and organizations in dealing with fraud. All areas must work together to develop effective strategies in preventing and detecting fraud. A multi-disciplinary approach is needed to comprehensively understand and address these issues. Fraud is a complex event that is influenced by various social, economic, and technological factors. Handling fraud requires a deep understanding of the interactions between various actors and social structures. With the right approach and collaboration between institutions, fraud can be minimized and justice can be enforced more effectively.

Auditing for fraud and corruption: A public-interest-based definition and analysis

Understanding the types and locations of fraud and corruption that often go unnoticed by auditors but attract public attention. This study takes an inductive approach to define terms such as fraud and corruption based on issues that are considered important by the general public, rather than using predetermined definitions. This approach is based on Foucault's idea of disposability, which shows how the audit profession today views fraud and corruption, as well as how society has different views on these issues. This study also shows that there is friction between the perspective of auditors and the public, which can widen the gap in audit expectations.

Identification of practices rarely discussed in the accounting literature or by professional auditors, such as human organ trafficking and falsification of academic degrees, as forms of fraud and corruption. The analysis also notes changes in the distribution of fraud and corruption activities over time, supporting the idea that corruption and fraud are polymorphic and plastic both temporal and spatial.

The main conclusion of this study is that the public often misinterprets the way the media downplays events and actions related to fraud and corruption. The media plays an important role in shaping people's understanding of this issue. The understanding of society that is "mediated" by the media can be influenced by ideology, so this study takes news from various sources with a broad political spectrum to get a more comprehensive understanding.

This study meets the standards of validity and reliability in positivist accounting research, but also acknowledges the existence of post-positivist preconceptions about social actors. This suggests that social actors' understanding of terms such as fraud and corruption, as well as the actions they take to address these issues, are influenced by normative and symbolic values. Overall, this research not only contributes to a better understanding of fraud and corruption and the role of the accounting profession in addressing them, but also contributes to the accounting literature by introducing new concepts such as 'dispositional friction' between auditors and the public.

Risk factors for fraud victimization: The role of sociodemographics, personality, mental, general, and cognitive health, activities, and fraud knowledge

The study found that some practices that are rarely discussed in the accounting literature or by professional auditors, such as human organ trafficking and falsification of academic degrees, often appear in the news as a form of fraud and corruption. This shows that there is a gap between what is considered important by the public and what is considered important by professional auditors. The study also documents changes in the distribution of corruption and

fraud activities over time, supporting the idea that corruption and fraud are polymorphic and plastic

A more comprehensive and inclusive approach is needed in audits to detect and address fraud and corruption. The media plays an important role in shaping people's understanding of corruption and financial fraud, this understanding is often influenced by the ideology of the media. Therefore, in order to get a more complete and accurate picture, this study combines news sources from various political spectrums.

This research makes a significant contribution not only to the understanding of fraud and corruption, but also to the accounting literature by introducing the concept of 'dispositional friction' between auditors and the public. This shows that the role of auditors needs to be improved and adapted to be more responsive to issues that are considered important by the general public. Thus, it emphasized the importance of integrating public perspectives into audit practices and suggested the need for changes in audit approaches to more effectively eradicate fraud and corruption that impact society.

Pressure

Pressure is one of the factors that affect the occurrence of fraud. Stress can be financial problems, personal problems, or work problems. This pressure can make a person feel compelled to cheat in order to meet their needs or achieve goals. For example, a person experiencing financial difficulties may feel compelled to commit fraud in order to meet their daily needs. This pressure can make a person more vulnerable to fraud and corruption.

Opportunity

Opportunity is another factor that affects the occurrence of fraud. The opportunity occurred because of a gap in the internal control system. This opportunity can be a lack of oversight, a lack of transparency, or a lack of internal controls. This opportunity can give a person the opportunity to commit fraud without the other party knowing. For example, a person who has access to a company's financial system can commit fraud easily if there is no effective oversight.

Rationalization

Rationalization is the last factor that affects the occurrence of fraud. Rationalization is carried out by the perpetrator of fraud to convince himself that the actions taken are not wrong. This rationalization can be a justification, such as "I have to do this so that my company can survive" or "I have to do this so that I can survive with my job". This rationalization can make it more difficult for a person to be stopped by the other party because they have convinced themselves that the action they are taking is right.

Factors that affect the occurrence of fraud

Pressure, opportunity, and rationalization are the 3 main factors that cause Financial Fraud (Fraud). Stress can be financial problems, personal problems, or work problems. The opportunity occurred because of a gap in the internal control system. Rationalization is carried out by the perpetrator of fraud to convince himself that the actions taken are not wrong. These factors can interact and influence the occurrence of fraud.

Skala inter

The inter scale can be used to assess the level of risk of fraud based on the level of pressure, opportunity, and rationalization in an organization. This scale helps identify what factors influence fraud and develop strategies to prevent it.

Case report on enormous economic losses caused by fraud

Fraud can cause huge economic losses. An example is the COVID-19 relief scam carried out in the US, which caused hundreds of billions of US dollars in losses. This scam is carried out by sending the wrong aid funds and using old technology such as floppy disks. These scams show how fraud can be cross-border and requires cooperation between countries to combat fraud.

Textual analysis and detection of financial fraud

Text analysis can be helpful in detecting financial fraud. The study shows that companies that engage in fraud tend to be more cautious in their financial reporting, reduce the expression of positive sentiment, and hide fraud by increasing the complexity of their annual reports as well as using more adverbs to modify forward-looking information. This text analysis can be helpful in detecting increasingly complex and hidden financial frauds.

Understanding the rise of fraud in England and Wales through field theory

Fraud in England and Wales can be understood through field theory. This theory suggests that financial fraud is not only about legal issues, but also social phenomena that are influenced by various forces in society. The study highlights several factors that contribute to the increase in fraud, including technological developments, economic changes, and social shifts. Handling fraud requires a deep understanding of the interactions between various actors and social structures.

Auditing for fraud and corruption

Auditing can be helpful in detecting fraud and corruption. This research shows that the public often misinterprets the way the media downplays events and actions related to fraud and corruption. The role of the media is very important in shaping public understanding of this situation so that it can influence a person's ideology which will be in harmony with what is

conveyed by the media. The understanding of society that is "mediated" by the media can be influenced by ideology, so this study takes news from various sources with a broad political spectrum to get a more comprehensive understanding.

Risk factors for fraud victimization

Risk factors that affect fraud victims are personality, mental, cognitive health, sociodemographics, general, activities, and fraud knowledge. The study found that some practices that are rarely discussed in the accounting literature or by professional auditors, such as human organ trafficking and falsification of academic degrees, often appear as forms of fraud and corruption.

CONCLUSION

1. **Fraud Triangle:** The theory related to the Fraud Triangle was developed by Donald R. Cressey to explain the possibility of fraud or fraud in an organization. This theory consists of three main factors: Pressure, Opportunity, Rationalization
2. **Pressure:** Pressure can be in the form of financial problems, personal problems, or work problems. This pressure can make a person feel compelled to cheat in order to meet their needs or achieve goals.
3. **Opportunity:** Opportunities occur because of gaps in the internal control system. This opportunity can be a lack of oversight, a lack of transparency, or a lack of internal controls.
4. **Rationalization:** Rationalization is carried out by the perpetrator of fraud to convince himself that the actions taken are not wrong. This rationalization can be a justification, such as "I have to do this so that my company can survive" or "I have to do this so that I can survive with my job".
5. **Factors that affect the occurrence of fraud:** The factors that affect the occurrence of fraud are the existence of pressure, opportunity, and rationalization. Stress can be financial problems, personal problems, or work problems. The opportunity occurred because of a gap in the internal control system. Rationalization is carried out by the perpetrator of fraud to convince himself that the actions taken are not wrong.
6. **Inter Scale:** The Inter Scale can be used to assess the level of risk of fraud based on the level of Pressure, Opportunity, and Rationality that occurs in an organization.
7. **Case Report On Enormous Economic Losses Caused By Fraud :** Fraud can cause enormous economic losses. An example is the COVID-19 relief scam carried out in the US, which caused hundreds of billions of US dollars in losses.

8. Textual analysis and detection of financial fraud: Text analysis can be helpful in detecting financial fraud. The study shows that companies that engage in fraud tend to be more cautious in their financial reporting, reduce the expression of positive sentiment, and hide fraud by increasing the complexity of their annual reports as well as using more adverbs to modify forward-looking information.
9. Understanding The Rise Of Fraud In England And Wales Through Field Theory : Fraud in England and Wales can be understood through field theory. This theory suggests that financial fraud is not only about legal issues, but also social phenomena that are influenced by various forces in society.
10. Auditing for fraud and corruption: Auditing can be helpful in detecting fraud and corruption. This research shows that the public often misinterprets the way the media downplays events and actions related to fraud and corruption.
11. Risk factors for fraud victimization : Faktor-faktor risiko yang mempengaruhi korban penipuan adalah sociodemographics, personality, mental, general, and cognitive health, activities, and fraud knowledge.
12. Digitalization and digital governance: Digitalization and digital governance are very important in efforts to reduce fraud. The use of artificial intelligence (AI) to detect and mitigate fraud is indispensable. AI is able to verify and validate information based on rules set by humans, thereby reducing the chance of fraud.
13. Implementation of AI in government systems: The implementation of AI in government systems to detect and prevent fraud should be improved, as AI can help in automated validation and detection of anomalies that may indicate fraudulent activity.
14. Cooperation between countries: Cooperation between countries and the international community is crucial in building a system that can counter globally organized fraudsters.

BIBLIOGRAPHY

- Button, M., Hock, B., Shepherd, D., & Gilmour, P. (2023). Understanding the rise of fraud in England and Wales through field theory: Blip or flip? *Journal of Economic Criminology*, 1(May), 100012. <https://doi.org/10.1016/j.jeconc.2023.100012>
- Koning, L., Junger, M., & Veldkamp, B. (2023). Risk factors for fraud victimization: The role of socio-demographics, personality, mental, general, and cognitive health, activities, and fraud knowledge. *International Review of Victimology*. <https://doi.org/10.1177/02697580231215839>
- Li, J., Li, N., Xia, T., & Guo, J. (2023). Textual analysis and detection of financial fraud: Evidence from Chinese manufacturing firms. *Economic Modelling*, 126(July 2022), 106428. <https://doi.org/10.1016/j.econmod.2023.106428>

- Takefuji, Y. (2023). Case report on enormous economic losses caused by fraud from Japan to the world. *Journal of Economic Criminology*, 1(January), 100003. <https://doi.org/10.1016/j.jeconc.2023.100003>
- Zunzunegui, M. V., Belanger, E., Benmarhnia, T., Gobbo, M., Otero, A., Béland, F., Zunzunegui, F., & Ribera-Casado, J. M. (2017). Financial fraud and health: the case of Spain. *Sanitary Gazette*, 31(4), 313–319. <https://doi.org/10.1016/j.gaceta.2016.12.012>