

Systematic Analysis of the Effect of Good Corporate Governance on Financial Statement Fraud in Indonesia

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Abstract

Financial statement fraud is a crucial issue that reflects weak internal control and corporate governance. This study aims to analyze the effect of Good Corporate Governance (GCG) on financial statement fraud through a Systematic Literature Review (SLR) approach. The search was conducted on articles published in the last five years with a focus on GCG elements such as independent board of commissioners, audit committee, institutional ownership, and managerial ownership. The study results show that most GCG elements negatively affect financial statement fraud, although there are contradictory findings that suggest that GCG effectiveness is contextual. Factors such as firm size, industry sector (Islamic or non-financial), and quality of implementation strongly influence the strength of the relationship between GCG and fraud. The study also identified that the integration of GCG with internal audit function and corporate ethical culture is a more effective combination in preventing fraud. This study makes a theoretical contribution by reinforcing the understanding that the relationship between GCG and financial statement fraud is not linear or uniform, but rather highly dependent on the institutional context and governance practices implemented in the business environment in Indonesia.

Keywords: GCG; financial_statement_fraud; audit_committee

JEL Classification: G34, M41, M42

1. Introduction

Financial statement fraud is a serious form of irregularity that can harm various parties, including investors, creditors, regulators and other stakeholders. This practice not only reflects the weak integrity of financial reporting, but also indicates the ineffectiveness of the internal control system and weak corporate governance. In this context, Good Corporate Governance (GCG) plays a crucial role as a system designed to direct and control the course of the company in order to achieve a balance between the interests of management, the board of directors, shareholders, and all stakeholders in a sustainable manner. Effective GCG implementation is believed to minimize the risk of fraud by encouraging transparency, accountability, and strict supervision of the company's financial and operational activities.

Various studies have shown that the main elements of GCG such as the existence of an independent board of commissioners, the effectiveness of the audit committee, and the proportion of institutional ownership have a significant contribution in preventing fraud in financial statements. However, empirical findings regarding the effect of each GCG element still show mixed and even contradictory results. For example, research by Hidayah (2024) found that the financial expertise of the audit committee had a significant negative effect on fraudulent financial



statement practices, while other variables such as the size of the board of commissioners and the frequency of audit committee meetings did not show a significant effect. The inconsistency of these findings suggests that the effectiveness of GCG in the context of fraud prevention is not universal and is likely to be influenced by contextual characteristics such as industry sector, ownership structure, and local regulations.

On the other hand, research by Amri and Puttri (2023) shows that institutional and managerial ownership affect financial statement fraud, while the board of commissioners has no effect. The difference in research results indicates the need for further studies to understand how each GCG element affects financial statement fraud. In addition, other factors such as company size and industry sector can also moderate the relationship between GCG and financial statement fraud. For example, research by Kurnia et al. (2023) found that company size strengthens the relationship between the board of commissioners and the audit committee on financial statement fraud, but weakens the relationship between institutional ownership and financial statement fraud.

Taking into account the diverse and even contradictory findings in the previous literature, this study aims to systematically analyze the effect of Good Corporate Governance (GCG) on financial statement fraud through the Systematic Literature Review (SLR) approach. This approach allows researchers to identify, critically evaluate, and synthesize previous research results in a structured and transparent manner. Through this method, not only can trends and gaps in research be mapped, but also the methodological strengths and weaknesses of previous studies can be objectively assessed. By summarizing various theoretical approaches, measurement variables, and empirical results from a number of relevant studies, this research is expected to make a significant contribution to the development of literature on the effectiveness of corporate governance in preventing fraud, especially in the context of Indonesia, which has its own regulatory characteristics and corporate structure. In addition, the findings of this study are expected to provide practical implications for companies, auditors, regulators, and policy makers to improve the effectiveness of the most relevant and contextual GCG mechanisms in reducing the risk of financial statement fraud. Thus, this study is not only retrospective, but also prospective in strengthening the foundation of accountable governance and integrity.

Based on the important role of Good Corporate Governance (GCG) in preventing financial statement fraud, this study aims to systematically analyze the relationship between GCG implementation and fraud potential based on the results of previous studies. This study uses a Systematic Literature Review (SLR) approach to explore trends, key findings, and inconsistencies in the results of various relevant studies. Until now, there have not been many studies that specifically examine the relationship between GCG and financial statement fraud in Indonesia using the SLR approach in the last five years. Therefore, this study not only provides an academic synthesis of the existing literature, but also offers a theoretical contribution in strengthening the understanding of the effectiveness of GCG elements in the context of fraud prevention in the Indonesian corporate environment.

2. Method, Data, and Analysis

This study uses the Systematic Literature Review (SLR) approach to identify and analyze empirical studies that discuss the effect of Good Corporate Governance on financial statement fraud. SLR was chosen because it allows researchers to collect, evaluate and synthesize previous research results in a systematic and structured manner. The first step in SLR is to determine the inclusion and exclusion criteria. The inclusion criteria in this study are: (1) empirical studies that address the relationship between GCG and financial statement fraud; (2) published in an accredited scientific journal or university repository; (3) publication period between 2018 to 2024; and (4) available in Indonesian or English. Exclusion criteria include: (1) conceptual or theoretical studies without empirical data; (2) studies that are not relevant to the research topic; and (3) duplication of publications.

Literature searches were conducted through online databases such as Google Scholar, ScienceDirect, and university repositories in Indonesia. The keywords used in the search include "good corporate governance", "financial statement fraud", "fraud", "board of commissioners", "audit committee", and "institutional ownership". From the search results, 15 studies were obtained that met the inclusion and exclusion criteria. After that, the selected studies were analyzed to identify the GCG variables studied, the analysis methods used, and the results and conclusions of each study. This analysis aims to identify common patterns, differences, and gaps in the existing literature.

3. Results

The results of the literature study indicate that the elements of Good Corporate Governance (GCG) have an important role in influencing the level of financial statement fraud.

Table1. Summary of Systematic Literature Review on GCG and Financial Statement Fraud

No	Element of GCG	Researcher(s)	Main Finding	Notes / Moderating Factors
1	Independent Commissioner	Kurnia et al. (2023)	Significant negative effect on fraud	
		Hidayah (2024)	Not significant without adequate meeting frequency	Quality of implementation matters
2	Audit Committee	Kurnia et al. (2023)	Negative influence, especially in large firms	More resources enable better oversight
3	Institutional Ownership	Amri & Puttri (2023)	Generally negative effect	Can be positive if involved in operations
4	Managerial Ownership	Safitri & Suwarno (2023)	Ambiguous effect	Depends on managerial incentives
5	Firm Size as Moderator	Kurnia et al. (2023)	Larger firms → stronger GCG impact	Size strengthens internal control
6	ACGS Dimensions	Nurhidayati (2023)	Broader GCG scope contributes to reducing fraud	Includes shareholder rights, fairness, disclosure
7	Internal Audit Integration	Fahira et al. (2023)	Strong GCG + Internal Audit reduces fraud significantly	GCG must be supported by audit systems
8	Quality of Audit Committee	Safitri & Suwarno (2023)	Varies by HR quality and independence	Not just structure, but competence
9	Sharia Supervisory Board	Putriana et al. (2023)	Significant in reducing fraud in Islamic firms	Contextual to Islamic finance
10	Board of Directors Characteristics	Agnes Monica & Muslim (2023)	Not significant	Management dominance overrides board oversight
11	Methodological Findings	Triyani et al. (2023)	Complex relationships (via SEM & logistic regression)	Influenced by many endogenous & exogenous variables
12	Non-Financial Firms	Nurhidayati (2023)	GCG more impactful in non-financial sectors	Fewer regulatory controls
13	Holistic Governance System	Fitriana et al. (2024)	GCG must be integrated with internal control and audit practices	GCG is not a standalone solution
14	GCG Score and Investor Trust	Fahira et al. (2023)	High GCG scores boost stakeholder trust and external oversight	Positive reputational effect
15	General Conclusion	Multiple sources	GCG generally reduces fraud, but effectiveness is highly contextual and implementation-dependent	Not structural alone, but executional

In general, strong GCG implementation tends to reduce the likelihood of financial statement manipulation (Hidayah, 2024). First, the role of the independent board of commissioners is the main focus in various studies. Several studies have shown that the existence of an independent board of commissioners is effective in preventing fraud because they have no direct attachment to management (Kurnia et al., 2023). However, other studies show that the effect can be insignificant if it is not supported by adequate meeting frequency (Hidayah, 2024).

Second, the audit committee is an important element in financial supervision. Research by Kurnia et al. (2023) shows that the existence and effectiveness of the audit committee has a negative effect on the level of financial statement fraud, especially in large-scale companies. This is because the audit committee is able to examine reports in depth and identify potential manipulation (Kurnia et al., 2023). Third, institutional ownership acts as an external monitoring mechanism. Institutional investors tend to be more concerned about reporting integrity and have the capacity to pressure management to implement sound accounting practices (Amri & Puttri, 2023). However, there are also studies that show that its influence can be positive on fraud if the institution is actively involved in making company operational decisions (Rachmawati, 2024). Fourth, managerial ownership has an ambiguous effect. On the one hand, management who owns shares will be more careful because they have a direct interest in the company's performance results. On the other hand, they also have a greater incentive to manipulate reports in order to show better performance (Safitri & Suwarno, 2023).

Fifth, some studies show that the effect of GCG elements on financial statement fraud depends on moderating variables such as firm size. Large companies with more resources tend to have better internal control systems, which strengthen the effect of GCG on reducing fraud (Kurnia et al., 2023). Sixth, the ASEAN Corporate Governance Scorecard (ACGS) approach as a GCG measurement tool is used in several studies and shows that broader GCG dimensions such as shareholder rights, fair treatment, and disclosure responsibilities contribute to preventing fraud (Nurhidayati, 2023). Seventh, the integrity of financial statements is not only influenced by the formal GCG structure, but also by the company's ethical culture and effective internal reporting system. Research by Fahira et al. (2023) shows that when GCG is combined with a strong internal

audit function, the potential for fraud can be significantly reduced (Fahira et al., 2023). Eighth, the difference in results in the effect of the audit committee shows that effectiveness depends not only on the existence of the institution, but also the quality of human resources and their independence in making decisions (Safitri & Suwarno, 2023). Ninth, in the sharia sector, specific GCG elements such as the sharia supervisory board were found to have a significant influence on fraud reduction. This shows the importance of considering sectoral context in assessing GCG effectiveness (Putriana et al., 2023).

Tenth, several studies have concluded that the characteristics of the board of directors have no significant effect on financial statement fraud. This can be caused by the dominance of management in strategic decision making without sufficient control from the board (Agnes Monica & Muslim, 2023). Eleventh, studies using logistic regression and SEM (Structural Equation Modeling) approaches show that the relationship between GCG and fraud variables is complex and influenced by many endogenous and exogenous factors (Triyani et al., 2023). Twelfth, research conducted on non-financial companies shows that GCG structures tend to be more influential due to the absence of special regulations such as in the financial sector which is generally closely monitored by the financial services authority (Nurhidayati, 2023). Thirteenth, it was found that GCG is not a single solution to address fraud, but part of a governance system that must be integrated with audit practices, internal controls, and operational transparency (Fitriana et al., 2024). Fourteenth, the higher the GCG score in the company, the greater the trust of investors and stakeholders, which has an impact on stricter external supervision of reporting activities (Fahira et al., 2023). Fifteenth, in general, this SLR concludes that the effect of GCG on financial reporting fraud tends to be significant, but is strongly influenced by context factors, size, sector, and the effectiveness of the implementation of GCG practices in reality, not just the formality of institutional structures (Hidayah, 2024; Amri & Puttri, 2023; Nurhidayati, 2023).

Based on the results of the literature search, it was found that most studies concluded that the implementation of Good Corporate Governance (GCG) elements has a significant influence on the prevention of financial statement fraud. Elements such as audit committee effectiveness, proportion of independent commissioners, and institutional ownership are often associated with increased transparency and stronger managerial oversight. However, not all studies show consistent results. There are a number of contradictory findings that need to be critically analyzed. For example, some studies found that the presence of independent commissioners had no significant effect on fraud reduction, and in some cases was only symbolic. Although the board structure appears to fulfill the principle of independence formally, the substantive oversight role is often weak due to hidden conflicts of interest or lack of competence in understanding financial statements in depth. In addition, some studies show that a high frequency of audit committee meetings does not necessarily correlate with reduced fraud risk, especially when meetings are not accompanied by a clear oversight agenda and follow-up on recommendations. This suggests that the quantitative aspects of GCG may not necessarily represent actual effectiveness, making it important to consider the quality of implementation and not just the formal structure. The analysis of these contradictory findings reinforces the argument that GCG effectiveness is contextual, depending on organizational culture, industry characteristics, and the integrity of individuals involved in the governance structure. Thus, the synthesis of the study results not only reflects the strength of GCG in reducing fraud, but also underscores the limitations of formal implementation that is not matched by the quality of implementation.

4. Discussion

From the 15 studies analyzed, it was found that most studies showed a significant effect between GCG elements and financial statement fraud. However, there are variations in these results depending on the GCG variables studied and the company context. First, independent boards of commissioners are often considered an effective oversight mechanism in preventing financial statement fraud. However, research by Hidayah (2024) shows that the size of the board of commissioners and the frequency of audit committee meetings have no significant effect on financial statement fraud. Second, the audit committee is also considered to have an important role in overseeing the financial reporting process. Research by Kurnia et al. (2023) found that the audit committee has a significant effect on financial statement fraud, and this effect is strengthened by company size. Third, institutional and managerial ownership are considered to influence management behavior in financial reporting. Amri and Puttri (2023) found that these two variables affect financial statement fraud, while the board of commissioners has no effect. Fourth, research by Triyani et al. (2023) shows that earnings management can moderate the relationship between GCG and financial statement fraud, although this moderating effect is not significant.

Fifth, research by Nurhidayati (2023) uses the ASEAN Corporate Governance Scorecard (ACGS) to measure the implementation of GCG and finds that GCG has a significant negative

effect on the tendency to commit financial statement fraud in non-financial companies. Sixth, research by Fahira et al. (2023) shows that the implementation of GCG and the implementation of internal audit simultaneously have a positive and significant effect on fraud prevention in property companies. Seventh, research by Safitri and Suwarno (2023) found that independent commissioners, institutional ownership, and managerial ownership affect the integrity of financial statements, while the audit committee has no effect. Eighth, research by Putriana et al. (2023) on Islamic banks in Indonesia found that the sharia supervisory board has an effect on financial statement fraud, while other variables such as the board of commissioners, board of directors, committee board, internal control, and risk management have no effect. Ninth, research by Agnes Monica and Resti Yulistia Muslim (2023) shows that the characteristics of the board of commissioners and the board of directors have no effect on fraudulent financial statements in consumer cyclical companies. Tenth, research by Rachmawati (2024) on food and beverage sub-sector manufacturing companies listed on the Indonesian Sharia Stock Index (ISSI) found that institutional ownership has a positive and significant effect on fraudulent financial statements, while managerial ownership, board of commissioners, and audit committee have no effect. Eleventh, research by Fitriana et al. (2024) shows that internal control and GCG affect fraud prevention in companies listed on the JII.

Findings from this literature review indicate that there are variations in the effectiveness of Good Corporate Governance (GCG) implementation in preventing financial statement fraud, which is evident when comparing the Islamic and public/non-financial sectors. In the Islamic sector, some studies indicate that specific governance elements such as the Sharia Supervisory Board (DPS) play a significant role in reducing fraud potential. This can be explained by the moral and spiritual dimensions inherent in Islamic economic principles. The DPS is not only tasked with ensuring sharia compliance, but also serves as a more internalized ethical watchdog in corporate decision-making. In addition, transparency and honesty are considered core values in Islamic finance, so the effectiveness of GCG is more substantive than just an institutional formality. In contrast, in the public sector and non-financial companies, the effectiveness of GCG tends to be more variable. Some studies show that while GCG structures are in place, they are not consistently implemented. This could be due to resource constraints, lack of regulatory pressure, or a low culture of compliance in certain sectors. In addition, the absence of specialized oversight such as the OJK for the non-financial sector leads to weaker external control over financial reporting practices, increasing the potential for fraud despite formal GCG structures being in place. These differences suggest that the effectiveness of GCG is not universal, but highly contextualized depending on the industry sector, institutional norms, as well as the characteristics of the prevailing supervisory system. Therefore, a tailored governance approach is needed by considering internal values, institutional capacity, and external incentives relevant to each sector.

5. Conclusion, Limitations, and Suggestions

Conclusion

Based on the results of a systematic literature study of various studies conducted in the last five years, it can be concluded that Good Corporate Governance (GCG) plays a significant role in suppressing financial statement fraud. The main elements of GCG such as the existence of an independent board of commissioners, the effectiveness of the audit committee, institutional ownership, and managerial ownership show a consistent relationship with efforts to prevent reporting manipulation. However, this influence is highly dependent on the effectiveness of implementation and the quality of governance functions that are carried out in real terms, not merely their structural existence. In addition, sectoral context, company size, and internal control system also moderate the relationship between GCG and fraud. This indicates that GCG is not the only solution in fraud prevention, but must be part of a supervisory system that is integrated with internal audit and corporate ethical culture. Therefore, companies need to develop governance that not only meets formal standards, but also encourages transparency, accountability, and active participation of all stakeholders in maintaining the integrity of financial statements.

Limitation and suggestions

This research has several limitations that need to be considered. First, the approach used is Systematic Literature Review (SLR), so the results obtained depend entirely on the quality, relevance, and diversity of literature sources available in the 2019-2024 time span. This limitation may lead to selection bias, especially if there are important studies that are not identified or not openly published. Most of the studies reviewed were conducted in the context of Indonesian companies, so the generality of the findings is limited. Organizational culture, legal systems, and regulatory oversight in other countries may lead to differences in the effectiveness of GCG implementation on financial statement fraud. The measurement of GCG variables in the reviewed

studies tends to vary, both in terms of indicators and rating scales. This complicates the process of aggregating results and limits robust quantitative inferences from the influence of individual GCG components. To improve the validity and generalizability of the results, future research is recommended to use quantitative approaches with primary data, such as surveys or in-depth case studies, so as to provide direct insight into GCG mechanisms in practice.

In addition, cross-country testing is needed to compare the effectiveness of GCG structures in different regulatory frameworks and corporate cultures. This will enrich the understanding of the contextual factors that moderate the relationship between GCG and financial statement fraud. Further research is also recommended to develop a more integrated governance index, covering formal and informal aspects such as organizational culture, management integrity, and communication transparency, to capture more holistic governance dynamics in preventing financial statement fraud.

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