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Bank Corporate Governance: Shield against Fraud

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Abstract

An efficient corporate governance system in a bank is crucial for maintaining financial stability, boosting stakeholder confidence, promoting corporate accountability, and mitigating fraud risks. This paper investigates the role of bank corporate governance in safeguarding against fraud, reviwing 20 artciles published from 2017-2024. The study belives that fraud in banking institutions is a significant threat to the financial system, causing financial hardship and disrupting the banking system, indicating that opportunity such poor governance, weak control systems, poor organizational culture is the most contributing factor of these illegal and unethical behavior. The paper found that strong corporate governance significantly reduces the risk of fraud, with the board and audit committee playing a crucial role in ensuring accountability and boosting governance. To achieve bank corporate governance goals, it is necessary to utilize all available resources, including human and technological resources. The paper also found that corporate governance brings benefits such as increased transparency, accountability, reduced risk, enhanced decision-making, compliance, ethical conduct, and improved brand value, underlying that fraud risk incurs financial costs, reputational and regulatory risks, and decreased employee efficiency. The review concludes that bank corporate governance can act as shield against fraud, adding that ethical leadership, focusing on transparency and accountability, is essential for effective governance and deterring bank fraud. The study suggests investigating various types of fraud in the banking sector and their correlation with corporate governance, as well as conducting longitudinal studies to assess the long-term effects of robust corporate governance.

Keywords: *Bank coporate governance; fraud risk; bank fraud; banking sector; Somalia.*

JEL Callsification: G20; G21; G24; G28, G32; G34; G4, K42, G01

Introduction

Banking and financial systems have been integral to the growth and development of mankind for centuries (Singh & Nayak, 2015). The banking system acts as the lifeblood of an economy, playing a critical role in several ways, including financial services provision, transaction facilitation, stability promotion, economic growth, and money safeguarding. For that, governments serve as a protective shield for the banking sector, safeguarding stakeholders interests and fostering a stable and sound financial system that nurtures economic growth. However, business firms including banking firms has failed or been forced to sell due to internal and external forces. Recently, a number of financial firms have been placed under regulatory or governmental supervision, aimed at preventing market failure, safeguarding stakeholders interests, and upholding public confidence in the banking system. So, financial institutions are currently facing with intricate regulations and governance procedures set by regulatory authorities, beliefing that banking system's failure, and financial distress are significant concerns for the economy (Singh & Nayak, 2015). The financial scandals like Maxwell Publishing Empire, Baring Bank, WorldCom, Enron, Lehman Brothers, and the global financial crisis exposed significant vulnerabilities (Athar et al., 2023) in the different business sectors, necessitating vigorous internal and external governance in baking sector.

The world's top banking regulators have recently implemented policies and regulations aimed at promoting good governance practices. Historically, bank governance is a long-standing practice in larger banks, albeit unrecognized, to maintain their business operations. Effective governance is increasingly recognized as crucial for the success of individual banks and the overall resilience of the banking system (Okoye, et al. 2020). Conceptually, bank governance is the framework utilized by banks to manage their operations and address the often-conflicting interests of their stakeholders (Apostolik, et al. 2009). Bank governance is crucial for financial institutions to manage complex systems, evolving technologies, and risks that can increase protection costs and damage reputation. One of the major challenges that hugely damaging banking institutions' assets, performance and reputation is fraud. Fraud is a significant threat to the global banking sector, and has always been one of the key concerns for the governments all across the globe (Sood &

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Bhushan, 2020). Common types of bank frauds include money laundering, fraudulent loans and advances, bribery and corruption, identity theft, accounting frauds, phishing and online banking frauds (Sood & Bhushan, 2020). The banking fraud cases are growing due to inadequate systems, technological advancements, poor control mechanisms, simplified customer identification, and insufficient legal frameworks (Kyrychenko et al., 2021).

The global economy is grappling with issues of fraud, which has a long history, and prevalence. The ACFE (2014) reports that 36.6% of fraud incidents occur within the banking sector, meaning that the banking sector is vulnerable to fraud risk due to poor governance, among others, (Nyakarimi, 2022) which can lead to bank failure. Fraud risk has heightened the complexity of managing financial institutions due to increased burdens, obligations, transparency demands, and regulatory issues. Therefore, effective fraud risk management is crucial for banks to avoid defaults and closures. Strong bank governance acts as a defense against fraud, while weak governance fosters it. Implementing good governance practices can significantly reduce fraud risk, protect against economic losses, and reputational damage. The concept of corporate governance, introduced in the 1970s, has emerged as a solution to address these challenges, and garnered global attention from scholars, regulators, business leaders, and investors. Corporate governance is expected to continue to significantly impact business communities, and institutions in the future (Cheffins, 2012). Yin et al. (2023) suggest that effective corporate governance attracts skilled employees, enhances innovation capacity, and positively impacts returns, emphasizing that skilled managerial staff are crucial for establishing effective management and effective governance. According to Girau et al. (2022) high corporate fraud rates underscore the need for institutions to enhance their corporate governance mechanisms, involving effective decision-making, policies, and procedures (Mohamed & Kulmie, 2023). Conversely, poor corporate governance, characterized by inadequate risk management systems and poor planning, can result in risks and crises.

In recent times, the global focus on corporate governance and institutional soundness has increased due to the institutional crisis, risk, and failure—all of which experts attribute to poor governance practices (Boadi et al., 2023;Kulmie, et al. 2024). Since the mid-1990s, several banking instructions in countries like Korea, Japan, Indonesia, Malaysia, and Thailand have experienced systemic failures due to economic challenges globally. Investigations have found poor corporate governance as a contributing factor to these bank collapses, identifying bank corporate governance as an early warning indicator for financial fragility and crises. Corporate governance is crucial for banks, as these institutions control significant third-party resources, and for protecting institutions from fraud and corruption, as it ensures transparency, integrity, stable foundations, and equitable law administration, preventing failures, disruptions, and conflicts that can arise from a lack of effective corporate governance. Bank fraud and governance are interconnected. Strong bank governance acts as a defense mechanism against fraudulent activities. Therefore, this study aims to explore the role of bank governance in mitigating fraud risk. This paper is divided as follows, in next part the conceptual and theoritical Review, focusing on the key concepts and historical development of corporate governance, goals, principes and machasims, folloed by bank fraud concepts and charecteristics. Then, methodology and result is presented in the third section, followed by the discussion in the fourth section. Finally, conclusion and recommondation are presened in the last section.

Conceptual and Theoritical Review

Bank Corporate Governance: Nature, and Historical Develoment

The general concept of governance is associated to the English writer Geoffrey Chaucer (c. 1343-1400). This term emerged centuries ago as a way of thinking (Jovanovic & Grujic, 2016), however, the term "corporate governance", first introduced in the 1980s, has surely gained significant importance in the early 21st century (Jovanovic & Grujic, 2016). The 1990s was labelled as the decade of corporate governance (Cheffins, 2015; Nal, 2010). During the early 2000s, scandals concerning major companies like Enron and WorldCom led to the term "corporate governance" being used by academics, policymakers, investors, and corporate executives worldwide to analyze issues related to board structure, executive pay, and shareholder involvement (Cheffins, 2015). However, the rise in corporate governance is attributed to the increasing number of scandals and crises, such as the collapse of big companies, which led to re-examination of governance committees, auditors, and independent director roles. While corporate governance is a highly debated topic globally, the governance in banking sector has not received much attention, however,

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corporate governance concerns and procedures in this industry are comparable to those in other industries (Urlea et al., 2011; Ţurlea, et al. 2010). Corporate governance (CG), as mentioned by Gashi & Hajdari, (2023), is an important component of contemporary finance theory, especially after the global financial crisis of 2008–2009.

The terms "governance," "corporate governance," and "bank governance" have been defined and explained by various authors, institutions, and policies. The National Association of Corporate Directors defines “governance” as the process of establishing long-term strategic objectives and plans, ensuring proper management structure is in place to achieve these objectives, while maintaining the corporation's integrity, reputation, and responsibility to its various constituencies (David & David, 2017). They added that governance is the act of oversight and direction, particularly when it comes to a board of directors' responsibilities. Conceptually, corporate governance is an umbrella term and has different definitions used in the academic debate, reflecting different values, ideologies or world-views (Ţurlea, et al. 2010). Corporate governance is defined by Basel Committee On Banking Supervision (2015) as “a set of relationships between a company’s management, its board, its shareholders and other stakeholders which provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance”. To put it briefly, corporate governance refers to the set of rules, practices, and processes that govern an organization.

Bank governance differs significantly from traditional governance for non-financial firms (Becht et al., 2011). Conceptually, it is the framework that outlines the strategies and guidelines for managing a bank to ensure its soundness, sustainability, and success. Other experts like Scripnic & Busmachiu, (2022) perceive it as a system of mechanisms ensuring management runs a firm for the benefit of stakeholders. Since effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole, international financial boards and banking sector authorities have proposed governance recommendations a to improve operational efficiency, decrease expropriation, reduce risks, and safeguard stakeholders' interests (El-Chaarani & El-Abiad, 2022; Ebhodaghe et al., 2023; Echobu & Echobu, 2023). Therefore, banks are increasingly focusing on corporate governance, including effective board oversight, risk management, strong internal controls, compliance, and enhancing board skills, establishing risk committees, and integrating audit and risk committee discussions. Jika et al. (2024) emphasized that good corporate governance is vital element in enhancing bank efficiency, and building public trust in banking sector. The implementation of good corporate principles helps defend bank assets from the opportunistic behavior of management. Bahoo (2020) asserted that fraudulent and corrupted activities in banking industry are managerial and business issues

The nature of banks’ operations presents unique difficulties and challenges that need to be addressed by their governance (Becht et al., 2011). Experts including Becht et al., (2011) assert that bank governance is both theoretically and practically distinct, and furthermore, financial regulations and policies are increasingly acknowledging the distinctive nature of bank governance. Global financial scandals have prompted significant changes in corporate governance and management, particularly in corporate boards. For instance, the US New York Stock Exchange and NASDAQ have modified their rules, necessitating the creation of multiple committees. Moreover, global guidelines like Basel (2006) emphasize the significance of board size and qualifications in bank governance to ensure board members understand their role in corporate governance and can make sound judgments about the bank's affairs. However, empirical data, mostly from Europe, showed that the boards of failed institutions were unaware of the actions taken by some employees of the bank (Becht et al., 2011), particularly fraudulent and corrupted behaviors. Even banks can be victims for these unethical and illegal issues from external sources. For instance, Global Witness Organization reports that corrupt individuals, government officials, dictators, warlords, and criminals frequently rely on banks to hide and lander their looted funds (Bahoo, 2020). The author added that poor corporate governance, incompetent officials, and involvement in corrupt activities have led to the past bankruptcy of financial institutions.

Bank Corporate Governance: Goals and Principles

Bank soundness and safety are fundamental to financial stability and central to economic health. The governance weaknesses in banks can lead to the spread of bad issues across the banking sector and the entire economy (Scripnic & Busmachiu, 2022). Research findings demonstrate that a poor governance

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structure can significantly undermine the stability and soundness of the banking sector. Therefore, banking institutions are required to apply good bank corporate governance, which allow a bank's board and senior management manage well its business, and allocating authority and responsibilities. The main goals of bank corporate governance, as noted by Scripnic & Busmachiu, (2022) include: (1) set the bank's strategy and objectives; (2) select and oversee personnel; (3) operate the bank's business on a day-to-day basis; (4) protect the interests of shareholder and stakeholders as well; (5) establish control functions. There are several principles that guide governors and managers in achieving these objectives. Jika et al. (2024) stated that principles of good governance include responsibility, transparency, independence accountability, and fairness. Kumar, (2016) added integrity and compliance of corporate governance norms as corporate governance. Thus, bank corporate governance is considered the cornerstone of corporate excellence.

Bank Corporate Governance: Dimensions

Seven internal corporate governance mechanisms can be utilized to enhance the safety, soundness, efficiency and performance of the banking sector: Board of directors, Risk management committee, Internal audit committee. Remuneration committee, Compliance and ethics committee, Nomination committee, Disclosure and transparency level (El-Chaarani & El-Abiad, 2022). These mechanisms clearly show that corporate bank governance works like a system or processes for directing and controlling companies (Kumar, 2016). The board of directors serves as the highest executive committee within a company (Monem, 2013). Functionally, the board of directors in the banking sector oversees the CEO, safeguards stakeholder interests, defines strategy, establishes organizational structure, manages financial soundness, and controls risk. The effectiveness of a bank board is determined by factors such as board independence, board size, and the absence of CEO duality (El-Chaarani & El-Abiad, 2022; Monem, 2013). These elements facilitate efficient monitoring of bank managers and staff, as well as the overall performance of the bank. The size and independence of the board are increasing in firms, while CEO duality, (where the CEO also serves as the board chair), is decreasing in firm size (Monem, 2013). Another mechanism is risk management committee, which is a crucial committee within the banking industry. Their role is to monitors emerging risks and activities, proposing and practicing strategies to mitigate various types of risks such as operational risks including fraud risk (Oino & Itan, 2018). This committee must be independent and maintain direct contact with the board of directors, due to the nature of their work and responsibilities. This aids in establishing a robust managerial and financial environment.

One of the fundamental building blocks of corporate governance structures is internal audit committee. The aim of this committee is to enhancing financial information quality, ensuring transparency, and boosting confidence between among different stakeholders. Therefore, the committee is responsible for controlling executive decisions, supervising the internal control system and governance mechanisms, and reporting to the board of directors without passing through the CEO, thereby safeguarding the interests of shareholders and stakeholders (Monem, 2013). The author added that bank safety, soundness, and performance are significantly linked to the existence of an efficient audit committee, characterized by high transparency and independence. The remuneration committee, a crucial corporate governance tool, works closely with the board of directors to establish compensation strategies, manage incentives, and ensure regulatory compliance. therefore, remuneration is a crucial strategy for a firm stability and growth (Yaacob et al., 2020). The authors found that low remunerations in management can increase fraud risk, while effective remuneration can motivate management to act in the company's best interest, potentially improving corporate performance. Therefore, the remuneration policy should be implemented by banking institutions, and the remuneration committee must adhere to and adhere to this policy. The ethics and compliance committee is crucial in bank corporate governance, promoting a culture of ethics, ensuring leadership commitment, assessing risks, and investigating violations. The compliance and ethics committee is a vital body in the banking sector, responsible for reviewing regulations and creating a professional guide, managed by an independent chief, in collaboration with the bank's board (El-Chaarani & El-Abiad, 2022). Another important body in bank corporate governance is the nomination committee, which safeguards regulations while finding and nominating candidates for top positions, and creating succession plans.

Transparency and disclosure (T&D) is essential for building better confidence, trust, and performance in banking industry, enabling informed decision-making and financial performance monitoring. While corporate governance is increasingly recognized as a significant component of enterprise risk management, transparency and disclosure is viewed as essential corporate governance framework (Fung, 2014)**.** To improve transparency and disclosure practices, it is crucial to consider issues such as truthfulness, completeness, materiality, timeliness, and accessibility of information (Fung, 2014)**.** These internal mechanisms perform better when incorporated with external mechanisms. Both the internal and external architecture provide a framework for corporate governance to manage the behavior and performance of the firm. Corporate governance mechanisms are bolstered by external laws, rules, and institutions to maintain a competitive environment and regulate insider behavior. These arrangements minimize costly agency problems, primarily through greater transparency. Table 1 illustrates what creates good corporate governance.

Table 1. Elements of good good corporate governance.

Elements	Description	Main role
Board of directots	A board of directors is a group of individuals appointed to provide expert guidance, set strategy, oversee management, and protect shareholder and stakeholder interests in a company.	Set the overall strategic direction; and ensure a company's profitability and sustainability.
Senior Mnagement	Senior Mnagement are those who has comprensive oversight of managers; directly responsible for the development of a specific line of business or operational fuctions	Communicate responsibilities and ensure staff performance
Internal audits	An internal auditor (IA) is a trained professional who independently evaluates financial and operational business activities, including corporate governance, for companies.	Assess risks, internal controls, and compliance; and provide report and recommondations to seniour management.
External audits	External auditors are licensed professionals; are responsible for conducting external audits of a company's financial statements	External auditors perform various tasks, including: reviewing the company's records and internal controls; ensuring accuracy and compliance with accounting standards; preparing and issuing a formal audit opinion.
Transprancey	Transparency is a crucial aspect of effective corporate governance, promoting openness and transparency in sharing information with stakeholders	Reduces Information Asymmetry; enhances reputation and trust, disclosure of risks, board composition and compensation, and sustainability practices.

Sources: Apostolik, et al. (2009).

Bank Fraud: Concepts, Types, and Charecteristics

Over the years, many academics (including economists, psychologists, and sociologists), policymakers, and auditors, —have focused their attention on the complicated topic of fraud, and still remain concerned about it. Fraud is a subset category of economic crimes, distinct from street crimes committed by lower social classes in public places (Kulmie, 2023). The term "fraud" has various definitions due to its nature and complexity. Fraud is the use of deception to obtain something of value or avoid an obligation (Duffield & Grabosky, 2001). Fraud is defined as "a knowing misrepresentation of the truth or concealment of a material fact with the intent to deceive another (Gardner, 2004). It constitutes all sorts of nonviolent crime creating a financial deficit and loss. Further, Black's Law Dictionary defines fraud as "an intentional perversion of truth for the purpose of inducing another in reliance upon it to part with some valuable thing belonging to him or to surrender a legal right. Bad faith—the conscious doing of wrong. The simplest definition of fraud is "violation of trust." Fundamentally, it is a human action meant to deceive another such that the victim loses and the offender gains something illegal (Ramamoorti, 2019). In short, fraud is stealing, yet it isn't done violently (Ramamoorti, 2019) and therefore, this is essential for understanding the essence of fraud. The Institute of Internal Auditors' International Standards defined fraud as "any illegal act characterized by deceit, concealment, or violation of trust" (The IIA's, 2017). The fraud has many dimensions and it's a product of internal (personality) and external (environmental or situational) elements (Duffield & Grabosky, 2001).

Fraud in financial institutions are commonly categorized into six types: internal fraud, stolen checks, forgery, fraudulent loans, forged documents, accounting fraud, and electronic fraud (Bonsu, et al. 2018).

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Fraud in banking can be classified as internal or external, depending on whether it occurs within or outside a financial institution (Bonsu, et al. 2018). Chen Zhu et al. (2011) assert that internal fraud constitutes the majority of fraudulent acts within financial institutions, while external fraud can occur from individuals or stakeholders related to financial institutions, such as those who steal mail, file bankruptcy, alter checks, or create fraudulent websites. The fraud is very different and it depends on the kind of the fraud scales, conditions, fraudsters, and other things (Mackevičius & Giriūnas, 2013). It has several distinct elements (Pickett & Pickett, 2002). First, fraud is deceitful: fraudsters or white-collar criminals engage in cheating, lying, concealing, and manipulating truth. Second, draud is intentional: it involves deliberate attempts to gain an advantage illegally. It is not arising from negligence and not simple errors.Third: it breaches trust: fraud breaks trust, as individuals, institutions, business and communities relies primarily on mutual relationships and commitments. Fourth, it causes losses: fraudsters aim to earn or secure an illegal gain or advantage and for this to happen there must be a victim.

Fraud incidents have become more shocking issues in recent years, which prompted numerous academics, researchers, policy experts, and specialized institutions to investigate fraud, its incidences, causes, and categories, enhancing our understanding and improving existing prevention and detective models, as fraud is prevalent globally. This risk is prevalent not only in government-run institutions but also in the private sector and in general society. Studies show that 30% of companies evaluated are fraud victims, affecting 5% of sales value, while 80% of these cases are committed by top management due to their position and authority (Shaikh & Nazir, 2020; ACFE, 2018). Reports also show that 25% of people worldwide claim being forced to use bribery and corruption to obtain public goods, services, or jobs (TI, 2017). Globally, unlawful, dishonest, and fraudulent activities result in losses exceeding USD4 trillion, highlighting the widespread and pervasive nature of this crime (Heliantono et al., 2020; ACFE, 2018).

Theoretical Review

Fraud Triangle and Fraud Scale Theories

Over all**,** Edwin H. Sutherland introduced the term "white-collar crime" in 1944, arguing that financial or economic crimes were often committed by professionals, making it difficult to identify their perpetrators. Notably, this theory differs from previous studies that attributed poverty as the primary cause of criminal acts (Puspasari, 2015). Sutherland (1940–1944) identified three differences between white-collar and street criminals: professional nature, low legal charges, and difficulty in identification. Another theory is Cressey's fraud triangle theory, developed after investigating 250 criminals, identifies pressure, opportunity, and rationalization as fundamental elements for fraudsters to intentionally break trust (Kulmie, 2023; Abdullahi & Mansor, 2018). The fraud triangle theory highlights the importance of financial and non-financial pressures in fraud (Lister, 2007). These pressures can be personal, work-related, or external, and can be influenced by various factors such as greed, financial problems, and social issues (Murdock, 2008). Further, it can be viewed as personal and institutional pressures (Vona, 2008). People under pressure often seek opportunities to commit fraud due to exploitable situations, inadequate governance, and control weaknesses ((Kulmie, 2023; Sujeewa, et al., 2018). Other pportunity factors include inadequate policies and rule violations, absence of punishments and disciplinary actions, and auditing processes, as well as ineffective monitoring (Abdullahi & Mansor, 2018). Rationalization is a personal justification for unethical behavior, often based on personal values and vulnerabilities. It reduces negative emotions and allows penetrators to justify actions (Awang at al., 2020). Murphy and Dacin (2011) identified three psychological fraud methods rooted in rationalization: inadequate awareness, intuition, and reasoning. Albrecht developed the Fraud Scale, a fraud theory based on 200 cases, addressing criticisms of the Fraud Triangle Theory (especially rationalization) and identifying situational pressures, opportunity to commit fraud, and personal integrity as causes (Puspasari, 2015). Ethics, encompassing moral principles, is a growing concern in public, corporate, and academic sectors (Fischer, 2004; Quinn, 1997). Ethics-based practices provide new opportunities for organizations, enhance good governance, sustainability, performance, and growth, and are promoted by institutions to raise awareness in business and market contexts.

Agency Theory and Institutional Theory

These two theories explain why there is fraud in the organizations. Additionally, corporate governance theories provide a clear explanation for why unethical behavior takes place in institutional environments.

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Agency theory is a business practice theory that explains the dynamic between principals (owners) and agents (management), arguing that agency problems arise from the division between the owner and the company manager (Mubarokah & Rahayu, 2024). This theory makes three assumptions about human nature: it assumes that humans act in self-interest, have limited cognitive abilities for future perceptions (bounded rationality), and are risk-averse, based on their limited cognitive abilities (Mubarokah & Rahayu, 2024). Agency theory links agency issues to banking fraud. Agents may use information for self-interest, causing losses for the principal and business. Internal bank fraud can also occur due to conflicts of interest between agents and principals, leading to huge lossess to banks, client and owners. This indicates the necessity of sound bank governance and the need to control fraud risk via it. Existing imprical works shows that poor governance can cause fraudulent management activities. In their study, Eugster et al., (2024) found that the size and diversity of boards, including well-functioning audit committees, are negatively correlated with corporate violations. Other theory relevant to the bank corporate governance is institutional theory, which suggests that organizations must adhere to social and institutional rules for survival, legitimacy, resource access, and stability, rather than solely focusing on performance and profit (Vadasi et al., 2020). This theory were utilised research framework such as Vadasi et al., (2020).

Methodology and Result

Study Variables, and Design

This study investigates the how bank corporate governance can work as sheild aginest fraud. Bank corporate governance refers to the set of rules, practices, and processes that ensure a bank is managed ethically, transparently, and accountably. Specifically, the study assess how corporate governace framewrk in banking institutions such as board of directors, internal controls, risk management, and compliance as a shield against fraud. Simply it investigate how corporate governace machanisms reduces opportunity to commit fruad, increases detection, deters misconduct, and promotes ethical behavior. To this end, the study utilized Systematic Literature Review (SLR) as research methodology. The SLR is a rigorous method for identifying, evaluating, and interpreting relevant research for a specific research question, topic area, or phenomenon (Paul & Barari, 2022; Szvetits & Zdun, 2016). The ultimate goal of SLR is to provide a fair, unbiased, and credible assessment of a specific research topic, or question. This method is a widely used research technique due to its systematic, objective, and comprehensive approach. Usually, the stages of SLR process include the identification, screening and eligibility evaluations of obtained documents.

The first stage amied to identfiying all relevent research docments from the datebases to incorporate in the study. The study employed two search databases, namely, Scopus and Google Scholar to find a broader spectrum of scholarly works from reliable sources. The second stage, screening, involves examining relevant articles and sources to identify and select relevant ones. The remaining stage is eligibility, which ensures that an article meets the inclusion criteria, aiming to ensure high reliability and validity by incorporating quality articles in the synthesis process. The study utilizes systematic literature review (SLR) to collect and analyze relevant research to answer research questions, aiming to provide a comprehensive knowledge and unbiased findings. Therefore, it is systematically searched, filtered, and assessed literature on bank corporate corporate governance and bank fraud, using key terms in research queastions, such as corporate governance practices, board of directors, internal control, bank fraud, fraud detection and fraud prevention, and fraud mitigation, fraud risk in banking.

Research Questions

This study aims to answer the following research questions:

1. What is the importance of corporate governance in banks?
2. What role does corporate governance play in the fight against fraud risk in banks?
3. What are the most effective corporate governance practices for mitigating of bank fraud?

Search Strategy and Selection Criteria

The study utilizes systematic literature review (SLR) to collect and analyze relevant research to answer research questions, aiming to provide a comprehensive knowledge and unbiased findings. Therefore, it is systematically searched, filtered, and assessed literature on bank corporate corporate governance and bank fraud, using key terms in research queastions, such as corporate governance practices, board of directors,

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internal control, bank fraud, fraud detection and fraud prevention, and fraud mitigation, fraud risk in banking. The researcher developed selection criteria for this study, which involved removing duplicate documents, screening titles and abstracts, and assessing document quality. Eligibility criteria were then applied, as illustrated in the below table.

Table 1. Eligibility criteria

#	Item	Criteria	Description
1	Language	English	Only papers written in english are considered
2	Document type	Research/Review Article/conferences paper	Documents other than research and review materials were disallowed
3	Year published	2018-2024	Only publications published between this time (2018 and 2024) were considered

Results

In the initial stage of systematic review, i.e, identification, the researcher utilised keywords in the research questions. Fig 1 shows 301 articles identified from the Scopus, Google Scholar, and research gate, based on the search results. Netx, the screening process results indentifiying 75 duplicate articles, reducing the total to 226. Then, 101 articles were rejected after abstract screening, while 125 articles were deemed suitable for full text screening; and 75 documents were rejected at this stage, making only 50 aticles suitable for eligibility assessment. Typically, the research process begins by selecting articles that align with the research questions and verifying that the reviewed articles meet the desired criteria. Therefore, one of the main concern was assessing whether previous works addressed the following questions in order to achieve to the research purpose: RQ1: What is the importance of corporate governance in banks? RQ2: What role does corporate governance play in the fight against fraud risk in banks? RQ3: What are the most effective corporate governance practices for mitigating of bank fraud? However, the eligibility process resulted in 30 documents that addressed other aspects beyond the research questions, resulting 20 articles to be included in the synthesis, as shwon in Fig 1 (also see Appendix 1, showing more details of these 20 articles). The following section discuss the findings, by addressing the key inpust and and knowledge relevent to these guiding questions.

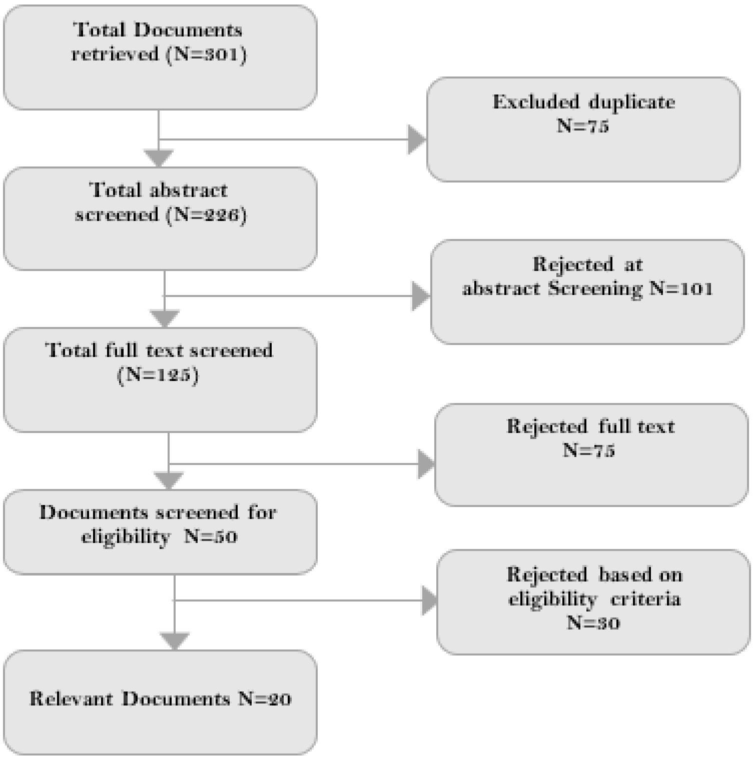

Figure 1. Presents search and review process.

Sources: Authors Illustration (2024).

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Discussions

Fraud, a global issue that has persisted since ancient civilizations, poses a significant challenge to companies of all sizes, sectors, regions, and countries (Saraswati & Agustina, 2022;Sood & Bhushan, 2020). Bank fraud concerns have increased due to its negative impact on businesses, particularly those with valuable property (Enofe,etal. 2017). The Association of Certified Fraud Examiners (ACFE) reported 2,504 fraud cases in 2020, highlighting a monthly average loss of USD 8,300. Mubarokah & Rahayu, (2024) highlight that the primary challenge for banking is effectively managing risks in a transparent, safe, and compliance manner with Basel standards. The banking sector's high number of fraud cases indicates a company failure, raising concerns among stakeholders about the credibility and reliability of the company's financial statements (Saraswati & Agustina, 2022). Researchers have studied the underlying reasons for fraud incidence, formulating various theories and models on corporate fraud and governance, which complement each other without necessarily contradicting each other. These theories suggest that fraud is influenced by institutional, psychological, social, financial, and cultural factors, leading to unethical and illegal activities. For instance, fraud triangle theory presents three fundamental causes of corporate fraud, known as fraud elements: pressure, rationalisation, and opportunity, basically showing that fraud occur when there are personal and institutional or system weaknesses. In this regard, Bonsu et al (2018) identified several factors contributing to fraud in Ghana's banking sector, including inadequate fraud policy and training, inadequate remuneration, inexperienced personnel, inadequate book-keeping, and insufficient annual audits. According to Kyrychenko, et al. (2021) bank fraud levels are influenced by financial instability, lack of client information, poor internal control, low corporate governance, standard customer verification procedures, unified employee register, and imperfect legal regulators.

Previous studies like Ahmad et al. (2021) suggest that fraud is influenced by both economic and non-economic factors. In the economic literature, operational risk is a significant factor influencing fraud (Saraswati & Agustina, 2022). Bank fraud falls under operational risk, a broad category that encompasses all types of risks not classified as credit or market risk (Ramly & Basharahil, (2021). However, the banking industry faces significant fraud risk, posing numerous inquiries about potential strategies to mitigate it: Why is bank fraud so distinct? Does bank governance affect risk and efficiency? How does the good corporate governance prevent the fraud in banks? Several experts including Sudjono, (2023); Enofe, et al. (2017); Srairi, et al. (2022); and Hartanto, et al. (2020) attempted to find answers to such questions. One common assumption is that bank fraud is distinct from other types of fraud due to various reasons. Frist: *Breach of Trust:* Bank fraud is a serious issue that breaches the trust placed in banks, potentially leading to substantial financial hardship for the victims. Second: *Financial System Impact*: Bank fraud can significantly disrupt the financial system by threatening the trust and security of banks and their ability to manage their assets. Third: *Complexity:* Fraudsters are employing sophisticated techniques to exploit vulnerabilities in banking systems and technology. Fourth: *Mutltiple Sources:* Bank fraud can originate or spread globally. Banking institutions, therefore, need to have strong corporate governance, but as mentioned before, the banking industry's nature and complexity significantly intensify the challenges of governance mechanisms (Hartanto, et al. 2020; Ramly & Basharahil, 2021). Ideally, corporate governance is a set of mechanisms designed to address agency issues and manage firm risks (Ramly & Basharahil, 2021).

Corporate governance is a fundamental to bank soundness and sustainability, as several authors supported this notion, emphasizing that corporate governance is the primary factor in achieving corporate excellence. As corporate governance is a complex issue, it is also involves various cross-cutting factors, promoting the effectiveness and effiviency of the firm. According to Ramly & Basharahil (2021), corporate governance is crucial for organisations since it allows them to access both local and international financial resources, regardless of the other roles it may perform. According to Enofe et al. (2017), establishing good corporate governance is a need for the banking industry to grow and prosper as well as for fostering public and international confidence. Corporate governance is crucial for banks to realize benefits and mitigate risks associated with their banking processes, particularly operational ones. Banks typically implement good corporate governance by identifying, evaluating, and managing existing risks as well as mitigating potential risks, as per Saraswati and Agustina (2022). Additionally, corporate governance is a crucial practice for these instittions that minimizes opportunistic actions that could potentially harm their assets (Martins & Ventura, 2020). In banking sector, good corporate governance is viewed as a modern management model that aims to improve bank management by addressing challenges like intense competition, customer trust, and

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business development (Endah, et al. 2020). The authors suggests that effective corporate governance is rooted in two key theories: Agency Theory and Stewardship Theory. Agency theory emphasizes the need for strong corporate governance structures, including performance monitoring and compensation plans tied to shareholder value, to mitigate risks, and enhanc system soundness. Stewardship Theory focuses on empowerment and trust, suggesting that empowering managers and fostering a culture of trust can lead to better decision-making and long-term value creation.

In practice, governance mechanisms can align with business assumptions and proactively mitigate the risk of business failure (Hartanto, et al. 2020). The bank governane machanisims can be categorised as inetrnal machanism and external machanisim. According to Rossaliani, et al. (2023) the internal machanism of bank corporate governance comprises five components: Board of Commissioners, Board of Directors, Audit Committee, Managerial Ownership, and Institutional Ownership. However, the excution of good corporate governance in banking is mandatory as per Zulfikar, et al. (2020), due to their exposure to risks, more than other firms. Banks, being distinct financial institutions, cannot adhere to traditional corporate governance mechanisms due to their unique characteristics compared to non-financial institutions (Zulfikar, et al. 2020). Regarding the fraudulent case, good corporate governance is a crucial method or alternative to prevent fraud (Hartanto, et al. 2020). This leads to seeing corporate governance as a fraud inhibitor, as fraud risk mitigation is important to help organisations achieve their goals, financial performance, and other targets. Threfore, effective corporate governance, risk management, and compliance with existing laws and regulations are essential for a company's success (Hermawan & Novita, 2021). This is accurate as the likelihood of fraud is greatly decreased by sound corporate governance, which is defined by openness, responsibility, accountability, independence, and integrity. Moreover, Hermawan & Novita, (2021) also mentioned that compliance involves implementing company policies, laws, and regulations, ensuring strong governance and efficient operations for a company's success and health, while risk management involves predicting, analyzing, and controlling potential risks to achieve company targets, with banks' risk management committees reviewing credit, market, and liquidity risks, policies, and systems.

Certeainly, good corporate governance works as instrumental tool in reducing fraud risk. Rohmatin, et al. (2021) indicate that good corporate governance can mitigate the impact of opportunity and rationalization on fraud, while not reducing pressure and arrogance. Sudjono, (2023) highlights the significant impact of good corporate governance on the whistleblowing (51.3%), while fraud detection is influenced by both governance mechanisms and whistleblowing systems (37.5%), emphasizing the importance of human and technology aspects. Therefore, organizations must continuously focus on fraud detection and prevention, focusing on governance mechanisms and whistleblowing systems, which represent both human aspects and technology for fraud prevention (Sudjono, 2023). Implementing comprehensive measures to combat bank fraud (at legislative, bank management, and technological levels) can reduce corruption, money laundering, and terrorist financing rates (Kyrychenko, et al. 2021). Nsaibi, et al. (2020) states that six governance mechanisms significantly impact operational risk management, with board size, independent directors, institutional directors, state representatives, and foreign directors positively affecting the severity of operational losses. The board is a crucial internal corporate governance body, serving as the highest governance body, but board's performance depends on its charecteristics, and structure.The audit committee is another crucial organ that acts as a watchdog, ensuring accountability and strengthening governance. Nugroho & Diyanty (2022) argue that audit committee can reduce the manager's stimulus, opportunity, and capability to make frudulent behaviour. Mousavi, et al. (2022) reveal that board and audit committee characteristics such as independence, financial expertise, and industry expertise significantly and negatively impact fraudulent financial reporting and money laundering.

Technology, like humans, plays a crucial role in control systems, preventing and detecting inappropriate behavior, thus fostering a strong organizational culture, which is a foundation of building sound and clean environment. According to Utami, et al. (2020), internal control and organizational culture significantly enhance early fraud warning, highlighting that banks implmented both elements as an effective early warning for fraud. The authors stated that internal control environments involve top management responsibilities, risk assessment, fraud management, policy design, information dissemination, and regular monitoring. These frameworks strategally bring benefits and values to the organization. The message which internal control envoironment delevery is all initial fraud action report should be promptly reported to top management and the board of commissioners for proper evaluation and action to prevent further company

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losses (Utami, et al. 2020; Herawaty & Hernando, 2020). However, the effectiveness of this internal control environment depends on the proper use of technology and adequate technology governance at all levels. According to Utami, et al. 2020), the aim of IT governanc include (i) align IT with organizational strategy, (ii) exploit IT functions to enhance organizational performance, and productivity reduce operational costs, (iii) gain an advantage in market competition to capitalize on existing market opportunities, (iv) prioritize the safety and comfort of its consumers by effectively using IT. In previous studies like Pascalia's research (2017) indicates that internal control and risk management can significantly improve fraud prevention through execution of effective corporate governance. According to Martins & Ventura (2020); Sudjono (2023); Zulfikar, et al. (2020); and Ramly & Basharahil (2021), the most effective corporate governance practices for mitigating bank fraud include strong board oversight, effective risk management, strong internal controls, compliance culture, audit committee expertise, focus on ethics, and continuous improvement.

Table 2. Presents effective corporate governance practices.

Corporate Governance Practice	Description and objective
Strong Board Oversight	A well-functioning board with qualified and independent members can provide effective oversight of management, and organmization as well as identify potential risks
Effective Fraud Risk Management	Banks need a robust risk management framework to identify, assess, and mitigate fraud risks
Strong Internal Controls	Clear and comprehensive internal controls can help prevent and detect fraudulent activities
Compliance Culture	A strong culture of compliance within the bank discourages fraudulent behavior.
Audit Committee Expertise	An effective audit committee with knowledgeable members can provide independent scrutiny of financial statements and risk management practices
Focus on Ethics	Promoting a strong ethical culture within the bank discourages employees from engaging in fraudulent activities
Continuous Improvement:	Regularly reviewing and updating corporate governance practices ensures they remain effective in mitigating fraud risks

Source: Authors Illusttration (2024)

However, thre are some obstacles to good corporate governance in banking sector, such as complexities of bank operations, board composition and expertise, lack of board independence, incentive sructures, potential for collusion, external threats. Moreover, there are some external factors that hinder the effectiveness of bank corporate governance such as weak regulatory environment, cybersecurity threats, technological advancements, corruption, government influence, global financial interconnectedness. The figure 2 illustrates how corporate governance principles and goals influence institutional governance, impacting bank efficiency, safety, and resilience, and the country's financial system. It also highlights its connection with other industries through its influence on the financial system. Corporate governance is the framework of rules, practices, and processes that ensure a company operates ethically, transparently, and accountable to its stakeholders. The figure illustrates good governance as a three-section framework, comprising input, process, and results sections. IPR framework for bank corporate governance is a set of principles and mechanisms that govern the conduct of a bank.

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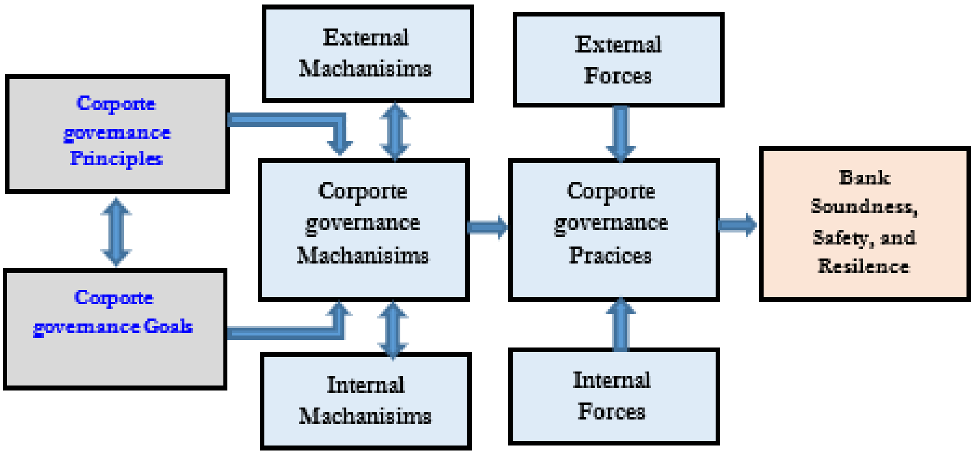

Figure 2. illustrates the foundations, mechanisms, and forces that influence bank corporate governance.

Source: Authors Illustraion (2024).

Conclusion and Recommendations

Inconclusion, bank fraud is a major threat, causing financial hardship and disrupting banking and the financial system. This kind of misconduct (i) attacks vulnerabilities in banking systems, (ii) undermines the foundation of the banking system, (iii) disrupts trust and security, hindering banks' ability to function, (iv) damages other inducteris. It's driven by a mix of factors and requires strong corporate governance to mitigate. Researchers indentify opportunity as strong factor influencing fraud, highlighting the need for strong corporate governance to mitigate risks. It is true that no one is born with a criminal record, meaning an individual is motivated to commit deception by their situation and surroundings. This makes corporate governance essential for institutions. For organizations, corporate governance is therefore crucial. Moreover, corporate governance can act as a fraud inhibitor, deterring bank fraud. However, ethical leadership, focusing on transparency and accountability, is crucial for effective governance, as these are key weapons against bank fraud. In other words, a strong ethical culture discourages employees from engaging in fraudulent behavior. Also, to realise the corporate governance goals, it is compulsory to utilise all avialible resources including human and technological resources as they are crucial for the success of control machanisims. The discussion also demonstrates that corporate governance and its subset organs bring benefits and values to the organization including increased transparency and accountability, reduced risk and enhanced decision-making, enhanced compliance, ethical conduct, improved long-term performance and enhanced reputation and brand value. This factually shows that fraud risk not only incurs financial costs but also poses reputational and regulatory risks, media attention, decreased company value, and decreased employee efficiency. Therefore, corporate governance is a critical aspect of bank soundness and sustainability, as it is the primary factor in achieving corporate excellence. As the discussion above demonstrates, strong corporate governance drastically reduces the risk of fraud. In particular, the board and audit committee are essential for ensuring accountability and boosting governance.

Limitations of the Study and Future Research Directions

The study evaluated how bank corporate governance helps mitigate fraud in banking institutions. The present study is subject to some limitations, including its limitation to previously published papers on bank governance, bank fraud, and related issues. Furthermore, the review procedure did not address additional variables that may be associated with or potentially affect governance, such as ownership and control. The article suggests more research on the many forms of fraud that occur in the banking industry and how they relate to corporate governance in banks. The paper proposes to investigate the relationship between bank corporate governance and several forms of fraud in the banking industry. The article suggests carrying out empirical research to examine the long-term impact of robust corporate governance in reducing occurrences of bank fraud and enhancing financial stability.

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Originality/Contribution: The study asserts that effective governance is crucial for banks to become secure, stable, and robust. It emphasizes the importance of the board, audit committee, and moral leadership as crucial elements, and offers a how bank fraud is mitigated through good bank governance.

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