

ABSTRACT

Various antecedents of financial statement fraud have been studied in the accounting literature but it persists. This study examines the effect of social control, myopic management, and litigation risk on the likelihood of fraudulent financial statements. This study conducted fixed effect logit regression to 134 companies that have been included in Kompas100 index during 2021-2023. The results show that social control and litigation risk contribute to suppressing fraudulent financial statements. Myopic management can increase the probability of fraudulent financial statements. Social control can reduce 59 percent of the probability of fraud while litigation risk by 32 percent. Myopic companies are 14 times more likely to fall into financial statement fraud than non-myopic ones. This research provides an insight that two opposing theories, slippery slope and licensing behavior can be used to explain the accounting fraud phenomenon depending on the role of external interventions such as regulatory and social. Social control can create external pressure that encourages companies to behave more ethically. Companies can fall into the slippery slope of financial statement fraud when they are over-optimistic on profits. When companies face legal issues that could threaten their moral identity, they tend to be more compliant in financial reporting. This study recommends future research to expand the observation range and/or modify this research model. It may also consider sustainability performance as an additional measurement of myopic management. Finally, the results can be an evaluation material for authorities and government to optimize the press in controlling corporate compliance to accounting standards and regulations.

Keywords: likelihood of of fraudulent financial statements; social control; myopic management; litigation risk