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From Fraud Risk Governance to Rural Bank Failure: A Systematic Literature Review and Integrative Research Framework

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A B S T R A C T

Fraud risk and governance weaknesses are important concerns for banking stability, yet research on banking fraud, corporate governance, internal control, and bank failure often examines these issues separately. This systematic literature review synthesizes research on fraud risk governance and bank failure, with particular attention to the implications of international evidence for Indonesia's Bank Perekonomian Rakyat (BPRs). It addresses five research questions concerning governance mechanisms, the relationships between governance weaknesses and fraud-related risks, pathways linking fraud and financial misreporting to financial distress or bank failure, factors influencing governance effectiveness, and gaps for future research. Using Scopus as the primary database and PRISMA 2020 as the reporting framework, the review employed four complementary search queries to identify 14 candidate studies for further assessment and synthesis. The synthesis distinguishes empirical findings from conceptual arguments and contextual observations, while treating documented fraud, suspected irregularities, financial distress, and formal bank failure as distinct phenomena. Based on the candidate literature, the review proposes a provisional integrative framework linking fraud risk governance mechanisms, fraud exposure, financial vulnerability, institutional outcomes, and contextual conditions. The framework provides a foundation for future empirical research and informs discussions of governance and early-warning mechanisms in Indonesian BPRs. However, the available evidence does not establish fraud as either a necessary or sufficient cause of bank failure, and the framework requires further empirical validation

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INTRODUCTION

Fraud risk and governance weaknesses pose significant challenges to the stability and sustainability of banking institutions. Fraud can cause financial losses, undermine financial reporting reliability, and weaken stakeholder confidence. In banking, these risks are related to internal controls, auditing, management accountability, and regulatory supervision (Akhidime, 2019; Davydov & Swidler, 2016).

Fraud risk governance encompasses the arrangements through which institutions oversee, prevent, detect, investigate, and respond to fraud risks. Internal control is an important component because it supports accountability, compliance, and the prevention and detection of irregularities. Sulistyowati et al. (2025) examine the role of internal control in fraud prevention, providing a relevant foundation for understanding fraud risk governance. Nevertheless, the effectiveness of governance mechanisms depends on their implementation, oversight, and institutional accountability.

The relationship between fraud governance and bank failure is complex. Governance weaknesses may increase fraud exposure or delay corrective action, while fraud and financial misreporting may contribute to financial deterioration and institutional vulnerability (Bennett & Unal, 2015; Davydov & Swidler, 2016). However, bank failure may also result from inadequate capitalization, poor management, ineffective supervision, or other financial pressures (Karminsky & Kostrov, 2017). Fraud should therefore be examined as a potential contributor to failure rather than assumed to be its sole cause.

These issues are relevant to Indonesia's Bank Perekonomian Rakyat (BPRs), which operate within a distinct institutional and regulatory context. Anwar et al. (2025) examine the relationship between the loan-to-deposit ratio, non-performing loans (NPLs), and BPR profitability. Although this research does not directly establish a causal relationship between fraud governance and bank failure, it highlights the importance of credit risk management to BPR financial sustainability. Evidence from other banking systems must be applied cautiously because institutional structures and supervisory environments may differ.

Despite research on banking fraud, corporate governance, internal control, and bank failure, these topics are often examined through different analytical perspectives. Fraud studies may emphasize detection and financial misreporting, whereas bank-failure studies frequently focus on financial indicators, supervisory practices, or institutional vulnerability (Davydov & Swidler, 2016; Karminsky & Kostrov, 2017; Maimbo, 2002). An integrated synthesis is needed to clarify how governance mechanisms relate to fraud exposure, how fraud may contribute to financial distress, and which organizational and regulatory conditions influence institutional resilience.

This review synthesizes research on fraud risk governance and bank failure, with particular implications for Indonesian BPRs. Guided by the PRISMA 2020 reporting framework (Page et al., 2021), it addresses five research questions:

RQ1. What fraud risk governance mechanisms have been examined in banks and comparable financial institutions?

RQ2. How are governance weaknesses, internal control deficiencies, and audit failures associated with fraud occurrence, detection, reporting, and organizational responses?
RQ3. Through what mechanisms may fraud and financial misreporting contribute to financial distress, insolvency, or bank failure?
RQ4. Which organizational, institutional, and regulatory factors influence the effectiveness of fraud risk governance and the prevention or mitigation of bank failure?
RQ5. What theoretical, methodological, and contextual gaps remain, and what are their implications for future research on fraud risk governance in Indonesian BPRs?

The review aims to integrate previously fragmented research streams, develop a framework connecting governance mechanisms, fraud exposure, financial vulnerability, and institutional outcomes, and identify priorities for future BPR research. It distinguishes documented fraud, suspected irregularities, governance deficiencies, and failures arising from other causes to separate established findings from relationships requiring further empirical investigation.

LITERATURE REVIEW

Fraud Risk Governance

Fraud risk governance refers to the organizational arrangements through which institutions oversee, assess, prevent, detect, investigate, and respond to fraud risks. It extends beyond detection to encompass accountability, independent assurance, corrective action, and organizational learning. This perspective is consistent with the COSO Internal Control—Integrated Framework, which emphasizes risk assessment, control activities, information and communication, and monitoring (Committee of Sponsoring Organizations of the Treadway Commission, 2013). The Institute of Internal Auditors also distinguishes the responsibilities of governing bodies, management, risk and compliance functions, and internal audit (The Institute of Internal Auditors, 2020).

This review examines six complementary dimensions of fraud risk governance: board and management oversight, including accountability, independence, and responsibility for fraud risk; internal control and risk management, including segregation of duties, authorization procedures, risk assessment, and monitoring; internal and external auditing, including auditor independence, audit quality, and follow-up on audit findings; whistleblowing and reporting, including accessibility, confidentiality, protection against retaliation, and investigation procedures; ethical culture and accountability, including leadership integrity, ethical standards, incentives, and responses to misconduct; and regulatory supervision and compliance, including supervisory monitoring, reporting obligations, enforcement, and corrective interventions. Although these dimensions are analytically distinct, they may complement one another. The formal existence of a governance mechanism does not, by itself, demonstrate its effectiveness. Accordingly, the synthesis distinguishes

governance arrangements from their implementation and demonstrated outcomes.

Governance Weaknesses and Fraud Exposure

Governance weaknesses may increase fraud exposure when decision-making authority is concentrated, internal controls are ineffective, monitoring is insufficient, or misconduct is unlikely to be detected and sanctioned. Agency theory helps explain these vulnerabilities because conflicts of interest and information asymmetry can encourage managers or other organizational actors to pursue their own interests at the expense of the institution and its stakeholders (Jensen & Meckling, 1976). In the banking context, information asymmetry may also make it difficult for depositors and other stakeholders to assess the quality of bank assets and the extent of misconduct. Jackson & Kotlikoff (2021) develop a theoretical model in which information about banking malfeasance affects confidence and investment in banks, highlighting the potential importance of credible information disclosure.

The fraud triangle offers a complementary behavioral perspective by identifying pressure, perceived opportunity, and rationalization as conditions associated with fraudulent conduct (Cressey, 1953). Governance mechanisms are particularly relevant to the opportunity dimension because effective controls, independent oversight, and credible investigation procedures may constrain opportunities for misconduct. However, the presence of these conditions does not prove that fraud has occurred.

The synthesis distinguishes incentives or pressures, opportunities arising from control weaknesses, rationalizations for misconduct, and organizational conditions that facilitate or constrain fraudulent activities. Where reported, it also considers the actors involved, including employees, managers, directors, external parties, and colluding groups. Preventive mechanisms are distinguished from detective mechanisms, while investigative and corrective responses are examined as separate aspects of fraud risk governance.

Fraud and Bank Failure

Bank failure is a multidimensional outcome that must be distinguished from fraud occurrence and financial deterioration. Research on bank failure has examined resolution costs, financial indicators, negative capital, and supervisory weaknesses (Bennett & Unal, 2015; Karminsky & Kostrov, 2017; Maimbo, 2002). Research on bank financial statements has also explored statistical irregularities as potential indicators of manipulation, although these indicators do not independently establish fraud (Davydov & Swidler, 2016).

The review distinguishes five related but non-equivalent outcome categories: fraud occurrence and confirmed losses, including documented fraudulent activities and associated losses; financial performance and asset quality, including declining profitability, increasing non-performing loans (NPLs), and other indicators of financial vulnerability; financial distress and impaired solvency, including persistent deterioration, capital inadequacy, or difficulty meeting financial obligations; insolvency, liquidation, or formal resolution, referring to documented institutional failure or an official resolution

process; and regulatory intervention or cessation of operations, including license revocation, closure, or other formal supervisory action.

These outcomes are related but not interchangeable. A bank may experience fraud without failing, and a bank may fail without documented fraud. Financial distress may precede failure but does not necessarily result in insolvency or closure. Accordingly, the synthesis distinguishes direct empirical associations from proposed mechanisms and contextual accounts. Theoretical explanations, including Jackson & Kotlikoff (2021) analysis, are treated as explanations of plausible mechanisms rather than direct empirical proof that fraud causes individual bank failures. Causal claims are made only when supported by the original research design and evidence.

Theoretical Perspectives

Three theoretical perspectives inform the conceptual synthesis.

First, agency theory explains how conflicts of interest and information asymmetry between managers, owners, and supervisory bodies can create agency costs and weaken accountability (Jensen & Meckling, 1976). It helps explain why independent oversight, credible auditing, and effective monitoring may constrain managerial misconduct, without assuming that agency conflicts necessarily produce fraud.

Second, fraud triangle theory identifies pressure, perceived opportunity, and rationalization as conditions associated with fraudulent behavior (Cressey, 1953). It helps organize evidence concerning incentives, control weaknesses, and justifications for misconduct, while recognizing that the framework does not provide a universal explanation for every fraud event.

Third, institutional theory explains how organizations respond to regulatory requirements, professional norms, and prevailing practices. DiMaggio & Powell (1983) identify coercive, mimetic, and normative pressures that can contribute to organizational similarity. In this review, institutional theory helps explain why institutions adopt particular governance arrangements and why formal adoption may differ from effective implementation.

Together, these perspectives address accountability and conflicts of interest, behavioral conditions, and the wider organizational and regulatory environment. They serve as sensitizing frameworks rather than predetermined explanations. The synthesis distinguishes theories explicitly applied in individual studies from interpretations developed during the review.

METHODOLOGY

Review Design

This study employs a systematic literature review guided by the PRISMA 2020 reporting framework. It uses structured bibliographic searching, transparent screening, standardized data extraction, and thematic synthesis. Scopus serves as the primary bibliographic database. The search strategy, eligibility criteria, screening decisions, and synthesis procedures were documented to support transparency and reproducibility.

Search Strategy

A systematic search was conducted in Scopus on 20 October 2026 using four complementary queries:

(1) fraud and banking, using TITLE-ABS-KEY((fraud* OR corruption OR misconduct OR "financial crime" OR embezzlement) AND (bank* OR banking OR "financial institution*" OR "rural bank*" OR "microfinance institution*"));

(2) governance, fraud, and internal control, using TITLE-ABS-KEY((fraud* OR corruption OR "fraud prevention" OR "fraud detection") AND (governance OR "internal control*" OR "internal audit*" OR compliance OR "risk management" OR whistleblow*) AND (bank* OR banking OR "financial institution*" OR microfinance));

(3) bank failure and financial distress, using TITLE-ABS-KEY(("bank failure" OR "financial distress" OR insolvency OR "bank closure" OR "banking crisis") AND (governance OR fraud* OR "internal control*" OR "risk management" OR "regulatory supervision") AND (bank* OR banking OR "rural bank*" OR "microfinance institution*")); and

(4) small and rural banks, including Indonesian BPRs, using TITLE-ABS-KEY(("Bank Perekonomian Rakyat" OR "Bank Perkreditan Rakyat" OR BPR OR "rural bank*" OR "community bank*" OR "small bank*" OR "microfinance institution*") AND (fraud* OR governance OR "internal control*" OR "risk management" OR insolvency OR failure OR supervision)).

The queries retrieved 15,601 records before deduplication. The summary of search results and preliminary screening is presented in Table 1, while the subsequent study selection process is described in Section 3.4.

Table 1. Summary of Search and Preliminary Screening Results

Screening stage	**Number of records**
Records retrieved from four Scopus search queries	15,601
Records removed as duplicates	2,598
Unique records retained for screening	13,003
Records excluded during preliminary thematic screening	9,746
Thematic candidates retained for further examination	3,257
Priority candidates selected for detailed relevance assessment	21
Full-text articles not accessible	2
Full-text articles accessible for eligibility assessment	19
Full-text articles excluded	5
Candidate studies remaining after full-text assessment	14

Eligibility Criteria

Eligibility criteria were established before screening. Studies were considered for inclusion if they were (1) peer-reviewed, English-language journal articles with verified Scopus indexing; (2) empirical quantitative, qualitative, or mixed-methods studies with identifiable objectives, data sources, analytical approaches, and findings; and (3) relevant to fraud, fraud risk governance, auditing, internal control, regulatory supervision, financial distress, or bank

failure in banks and comparable financial institutions. Eligible studies could examine direct fraud–failure relationships or substantive governance and fraud-related mechanisms relevant to institutional vulnerability. Accessible full texts and sufficient methodological information were required.

Studies were excluded if they were duplicates, non-English publications, non-scholarly items, unrelated to the review scope, or lacked accessible full texts or sufficient information to assess their methods and findings. Conceptual, theoretical, and legal analyses were not included in the empirical synthesis, although they could inform the conceptual background. Review articles were excluded from the primary synthesis but could be used to identify relevant empirical studies.

Eligible empirical evidence was classified into three analytical groups: (1) direct evidence concerning fraud and bank failure; (2) evidence on fraud risk governance and related control mechanisms; and (3) contextual evidence concerning financial vulnerability, supervision, or institutional failure. Non-Indonesian banks and comparable financial institutions were treated as comparative evidence, not as direct equivalents of Indonesian BPRs. Relationships were interpreted according to each study's research design, and causal claims were not inferred from descriptive or correlational findings alone.

Study Selection

The study selection process comprised identification, deduplication, preliminary screening, and full-text eligibility assessment. Four Scopus queries conducted on 20 October 2026 retrieved 15,601 records. After 2,598 duplicates were removed, 13,003 records remained. Preliminary thematic screening excluded 9,746 records and retained 3,257 candidates. From these candidates, 21 records were prioritized for detailed relevance assessment. Two full-text articles were inaccessible, and five of the 19 accessible articles were excluded, leaving 14 candidate studies. The selection process and record counts are presented in Figure 1.

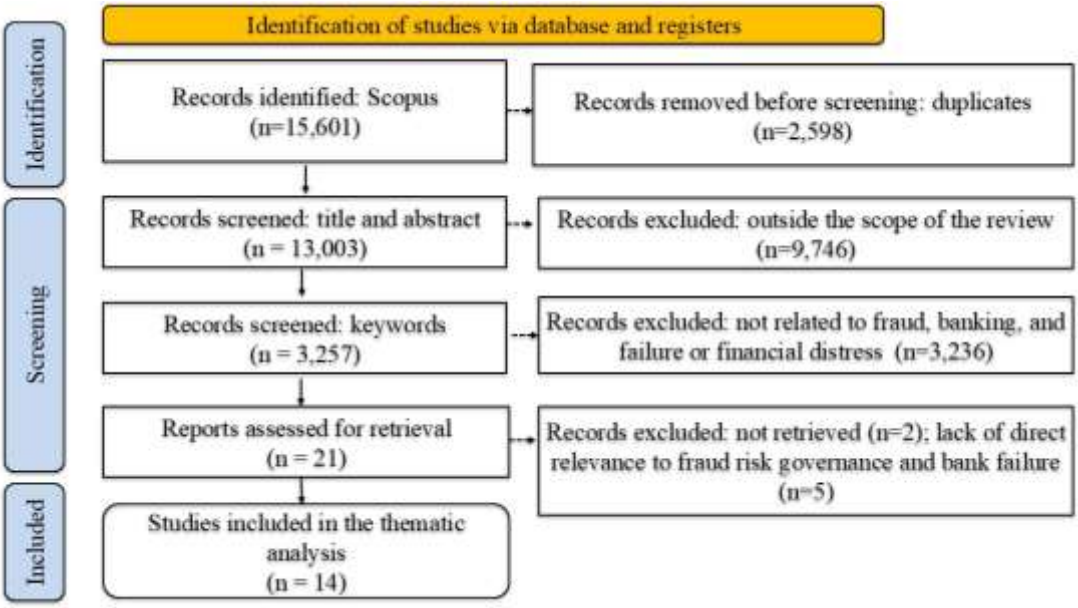


Figure 1. PRISMA 2020 Flow Diagram of the Study Selection Process

Data Extraction

A standardized data extraction form captured bibliographic details, country and institutional context, research objectives, theoretical frameworks, study designs, samples, data sources, analytical methods, fraud types, governance mechanisms, financial outcomes, and author-reported limitations and recommendations. The extraction focused on relationships among fraud risk governance, fraud exposure, financial distress, and bank failure, including the relevance of findings to rural banks, cooperative banks, microfinance institutions, and Indonesian BPRs.

Extracted evidence was classified as empirical findings, conceptual propositions, or contextual observations to distinguish data-based results from theoretical arguments and descriptive accounts. Documented fraud, suspected or inferred irregularities, governance deficiencies, financial distress, and formal bank failure were treated as distinct concepts. Interpretations were based on the evidence and methods reported in each study, with transferability across institutional and regulatory contexts assessed cautiously.

Evidence Characterization and Synthesis

Candidate studies were characterized according to their objectives, research designs, data sources, analytical approaches, principal findings, and author-reported limitations, as summarized in Table 2. The framework classified evidence as empirical findings, conceptual arguments, or contextual observations and distinguished fraud, governance weaknesses, financial distress, and formal bank failure. It also considered institutional and regulatory differences relevant to Indonesian BPRs. The synthesis compared findings thematically while avoiding causal claims unsupported by the original research designs.

Table 2. Evidence Characterization and Synthesis Framework

Dimension	Description
Data extraction	Objectives, designs, data sources, analytical approaches, findings, and reported limitations.
Evidence classification	Empirical findings, conceptual arguments, and contextual observations
Outcome differentiation	Separate treatment of fraud, governance weaknesses, financial distress, and formal bank failure.
Contextual relevance	Consideration of institutional and regulatory differences relevant to Indonesian BPRs
Synthesis and interpretation	Thematic comparison while avoiding causal claims unsupported by original research designs.

RESULTS AND DISCUSSION

Study Selection and Characteristics

Table 3 provides a preliminary mapping of candidate studies addressing banking fraud, fraud risk governance, financial reporting, regulatory supervision, financial distress, and bank failure. The studies vary in their institutional contexts, research designs, and relevance to the review questions. Some examine fraud-related mechanisms directly, while others provide evidence on governance arrangements or institutional vulnerability.

Table 3. Characteristics of Candidate Studies and Preliminary Evidence Mapping

Author (Year)	Country	Research Objective	Study Design	Data Source	Analytical Approach	Principal Findings
Aigbovo (2019)	Nigeria	Review financial crime laws	Legal analysis	Crime statutes	Descriptive	Identifies common fraud and money-laundering provisions
Akhidime (2019)	Nigeria	Examine audit failure and bank fraud	Documentary study	Studies, reports, financial statements	Content analysis	Weak audits, regulation, and accountability enable fraud
Baxter (2016)	USA	Explore regulati	Conceptual/ legal	Legal and banking	Legal analysis	Advocates adaptive regulation

Author (Year)	Country	Research Objective	Study Design	Data Source	Analytical Approach	Principal Findings
		on and RegTech		documents		and accountability
Bennett & Unal (2015)	USA	Assess bank resolution costs	Quantitative	FDIC records, 1986–2007	Cost analysis	Costs vary by resolution method, bank size, period, and fraud
Davydov & Swidler (2016)	Russia	Assess financial-reporting quality	Quantitative	Bank statements	Benford's Law	Reporting patterns improved after accounting reform; manipulation is not proof of fraud
Gangwani (2021)	India	Assess forensic accounting for bank fraud	Survey	156 respondents	Non-parametric tests	Forensic accounting may help detect fraud
Hollow (2014)	UK	Examine managerial hubris in bank failure	Historical case study	Archival and legal records	Case analysis	Hubris, fraudulent asset reporting, and weak controls contributed to failure
Jones (2020)	Malaysia	Examine 1MDB corruption	Case study	Legal, regulatory, and media documents	Documentary analysis	Highlights embezzlement and oversight failures

Author (Year)	Country	Research Objective	Study Design	Data Source	Analytical Approach	Principal Findings
Karminsky & Kostrov (2017)	Russia	Predict bank failures	Quantitative	Banking data, 2010–2015	Logit modelling	Identifies 33% of failures within the highest-risk 5% of banks, three quarters ahead
Maimbo (2002)	Zambia	Examine regulatory failure	Qualitative	28 interviews and documents	Institutional analysis	Regulatory forbearance delayed corrective action
Masera (2020)	Italy/ international	Examine Banco Ambrosiano and supervision	Historical study	Archives and supervisory documents	Institutional analysis	Highlights cross-border risks and supervisory reform
Mugarura & Namanya (2020)	Uganda	Examine bank supervision	Qualitative	Legal and documentary sources	Comparative analysis	Supervision matters but cannot prevent every bank failure
Nyoka (2015)	Zimbabwe	Identify bank failure causes	Desk-based study	Secondary data, questionnaire, interview	Descriptive analysis	Weak governance, capitalization, leadership, and supervision

Author (Year)	Country	Research Objective	Study Design	Data Source	Analytical Approach	Principal Findings
						contribute to failure Fraud, governance weaknesses, and political interference contribute to failure
Yadav & Tanwar (2024)	India	Identify cooperative bank failure factors	Expert-based modelling	Literature and expert assessments	ISM–MICMAC	

The methodological diversity offers complementary perspectives but limits direct comparison. Quantitative analyses estimate statistical relationships or predictive performance, whereas historical cases and documentary analyses provide contextual explanations. Theoretical and conceptual studies propose mechanisms rather than provide direct empirical tests. Consequently, the final synthesis must distinguish evidence directly relevant to the research questions from contextual material and must exclude non-empirical studies from the empirical synthesis.

Fraud Risk Governance Mechanisms (RQ1)

The candidate literature addresses auditing, internal control, regulatory supervision, accountability, and financial reporting. Akhidime (2019) discusses audit failure and fraudulent reporting in relation to auditing, regulation, and accountability. Jones (2020) examines corruption and oversight weaknesses in the 1MDB case, although this is not a direct study of BPR failure.

Regulatory arrangements are discussed by Baxter (2016), Maimbo (2002) and Mugarura & Namanya (2020), which address adaptive regulation, regulatory forbearance, and the role and limitations of supervision. (Gangwani 2021) examines perceptions of forensic accounting as a means of uncovering bank fraud.

These studies identify potentially relevant governance dimensions, but they do not collectively establish the effectiveness of every mechanism. Evidence concerning board oversight, whistleblowing, and ethical culture remains insufficient to support firm conclusions from the current mapping. The formal existence of a governance mechanism must therefore be distinguished from evidence of implementation and effectiveness.

Governance Weaknesses, Control Deficiencies, and Fraud (RQ2)

Several candidate studies associate governance or control deficiencies with fraud risk and unreliable financial reporting. Akhidime (2019) discusses

auditing, regulation, and corporate accountability in relation to fraudulent reporting. Hollow (2014) examines managerial conduct, fraudulent asset reporting, and control weaknesses in a historical bank-failure case. Jones (2020) documents corruption-related activities and oversight concerns in the 1MDB case.

Davydov & Swidler (2016) examine financial-statement patterns in Russian banks using Benford's Law. Statistical irregularities may provide indicators for further investigation, but they do not independently establish that fraud occurred. Similarly, the presence of governance weaknesses should not automatically be interpreted as proof of confirmed fraud.

The studies use different forms of evidence, including documentary records, historical cases, surveys, and quantitative analyses. Their findings are therefore not directly interchangeable. The current mapping does not establish which governance deficiencies are most prevalent or which controls are most effective in preventing, detecting, or responding to fraud.

Fraud, Financial Distress, and Bank Failure Pathways (RQ3)

The candidate literature suggests possible connections between fraud, financial reporting, financial distress, and bank failure. Hollow (2014) presents a historical case involving managerial hubris and fraudulent asset reporting. Akhidime (2019) discusses fraudulent financial reporting in relation to distressed banks. Bennett & Unal (2015) examine bank-resolution costs and fraud status, while Karminsky & Kostrov (2017) investigate indicators associated with bank-failure prediction.

These studies address different analytical questions. Historical cases can illustrate possible mechanisms but cannot establish that the same sequence applies to other banks. Predictive associations do not necessarily demonstrate causation, and financial indicators are not equivalent to confirmed fraud. The evidence therefore supports investigating potential pathways from governance weaknesses and reporting distortion to financial deterioration and failure, but it does not establish a universal causal relationship.

Organizational and Regulatory Conditions (RQ4)

The candidate literature identifies regulatory supervision, managerial conduct, institutional accountability, and organizational governance as relevant conditions. Maimbo (2002) discusses regulatory forbearance and delayed corrective action, while Mugarura & Namanya (2020) examine the role and limitations of bank supervision. Baxter (2016) proposes adaptive regulatory approaches and greater accountability.

At the organizational level, Hollow, (2014) examines managerial hubris and excessive discretion, while Yadav & Tanwar (2024) identify governance and institutional factors associated with urban cooperative bank failure. These findings suggest that fraud risk governance should be examined within its organizational and regulatory context.

Nevertheless, the studies differ in jurisdiction, institutional type, and research design. Their findings cannot be transferred directly to Indonesian BPRs without considering differences in regulation, governance arrangements, institutional capacity, and operating environments.

Research Gaps and Implications for Indonesian BPRs (RQ5)

The preliminary mapping identifies several potential research gaps. First, the candidate literature covers different banking systems and institutional settings, and direct evidence concerning Indonesian BPRs has not yet been established in this synthesis. Second, the studies examine different outcomes, including fraudulent reporting, NPLs, resolution costs, predictive indicators, and institutional failure. These outcomes should not be treated as interchangeable.
Third, the studies employ heterogeneous methods, ranging from statistical modelling to historical and documentary analysis. Although this diversity offers complementary insights, it complicates comparisons of governance effectiveness.
Fourth, several bibliographic and methodological details, including author-reported limitations and Scopus-indexing status, remain to be verified.
For Indonesian BPR research, these gaps suggest opportunities to examine how specific governance mechanisms relate to fraud prevention and detection, financial-reporting reliability, asset quality, and institutional distress. Longitudinal research could investigate whether governance deficiencies precede deterioration in financial condition, while case studies could explore how internal controls and supervisory responses operate in practice. These are proposed research directions rather than established conclusions from the current evidence.

Provisional Integrative Framework

The candidate literature provides a basis for a provisional framework comprising five dimensions: (1) fraud risk governance mechanisms, including auditing, internal controls, accountability, and regulatory supervision; (2) fraud exposure and organizational responses, including detection, investigation, and corrective action; (3) potential escalation pathways, such as concealed losses, reporting distortion, deteriorating asset quality, and financial pressure; (4) institutional outcomes, ranging from financial distress to insolvency or bank failure; and (5) contextual conditions, including managerial conduct, regulatory effectiveness, and institutional capacity. Together, these dimensions integrate the principal themes identified in the candidate literature and provide a structured basis for examining how governance arrangements may relate to institutional vulnerability.

As shown in Figure 2, these dimensions represent potential relationships rather than established causal pathways. Effective interventions may interrupt escalation, while contextual conditions may influence governance effectiveness. The framework therefore distinguishes governance mechanisms from their implementation and outcomes, recognizing that the formal existence of controls does not necessarily demonstrate their effectiveness. It also differentiates case-based evidence, statistical associations, predictive findings, and conceptual propositions to avoid treating different forms of evidence as equally conclusive.

The framework requires refinement following the final eligibility assessment and synthesis of the included studies. Its implications for Indonesian BPRs should treat international evidence as comparative rather than directly equivalent, given differences in institutional characteristics and regulatory environments. Future empirical research could examine how individual governance mechanisms interact with institutional conditions and whether their implementation is associated with earlier fraud detection, improved risk containment, and reduced vulnerability to financial distress. These relationships should be tested using appropriate data and research designs rather than assumed from the proposed framework.

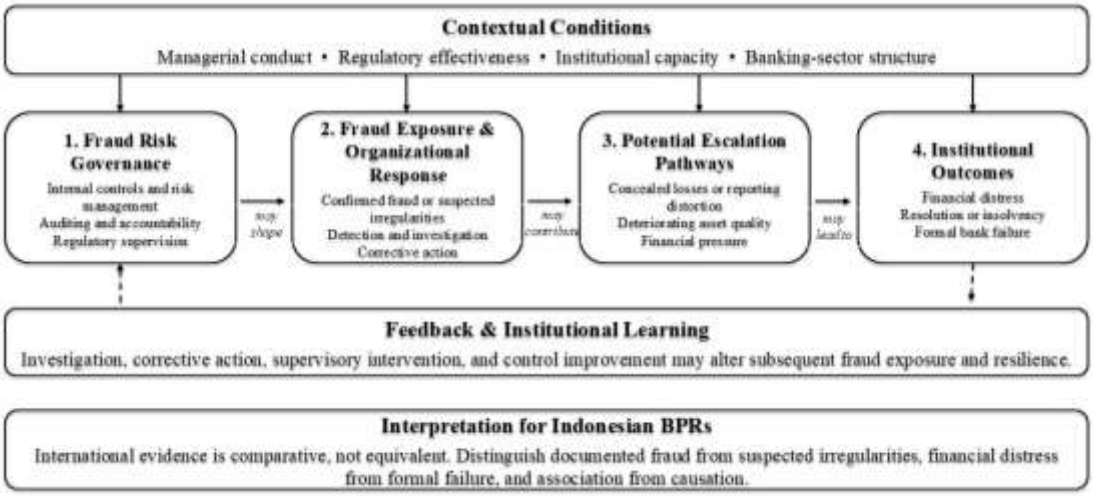


Figure 2. Provisional Framework of Fraud Risk Governance and Bank Failure

CONCLUSION

The candidate literature examines several dimensions of fraud risk governance and banking instability, including auditing, internal controls, financial reporting, regulatory supervision, financial distress, and bank failure. However, the studies vary in relevance, research design, and evidential strength. The preliminary synthesis highlights governance mechanisms and regulatory conditions as important dimensions for understanding fraud exposure and institutional vulnerability. Nevertheless, documented fraud, suspected irregularities, non-performing loans, financial distress, and formal bank failure must be treated as distinct phenomena. Findings from foreign banking systems also require contextual interpretation before their implications can be extended to Indonesia's Bank Perekonomian Rakyat (BPRs). Accordingly, the proposed framework offers a provisional basis for investigating the relationships among fraud risk governance, financial vulnerability, and bank failure, while identifying key relationships that require further empirical testing.

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