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NAVIGATING THE GLOBAL ACCOUNTING LANDSCAPE: ADVANCING FINANCIAL LEVEL REPORTING STANDARDS TO COMBAT FINANCIAL FRAUD

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ABSTRACT

Financial fraud stands as a formidable challenge within the global economic milieu. While extant literature has extensively scrutinized financial fraud reporting, scant attention has been directed towards exploring prevention strategies from the vantage point of auditors, particularly in burgeoning economies like India. This study delves into the adoption of accounting financial level reporting and the deployment of strategies for preventing financial fraud. Drawing from a sample comprising 199 auditors across various metropolitan cities in India, employing a convenience sampling methodology, this research elucidates the pivotal role of auditors' commentary in facilitating flexible and robust financial fraud reporting mechanisms. The findings underscore the indispensable role of auditors in the realm of fraud prevention, with both internal and external auditors frequently resorting to internal control reviews and enhancement strategies.

Keywords: *Financial Fraud, Financial Reporting, Auditors, Fraud Prevention, Regulatory Framework, Auditors' Commentary.*

Introduction

The threat of financial fraud stands as a formidable spectre within the contemporary financial milieu, presenting an alarming challenge to the integrity of financial institutions on a global scale and disseminating deleterious effects throughout economies at every level [1, 2]. The insidious incursion of fraudulent conduct into the multifarious layers of organizations calls for a unified, robust response to reinforce the bastions against such corrupt practices [3]. Within this context, the role of financial reporting is elevated to a critical imperative, as it constitutes the cornerstone upon which a vast array of stakeholders—including employees, creditors, consumers, corporations, and governing bodies—rely for enlightened decision-making, predicated upon the cornerstones of accuracy and full disclosure [4, 5]. The guardians of financial reporting—the boards of directors, audit committees, external and internal auditors, along with management—stand at the vanguard of ensuring the fidelity and dependability of Financial Reporting (FR) [6]. Encapsulated within Figure 1 is an illustrative depiction of the dynamic and comprehensive efforts required to prevent financial fraud.

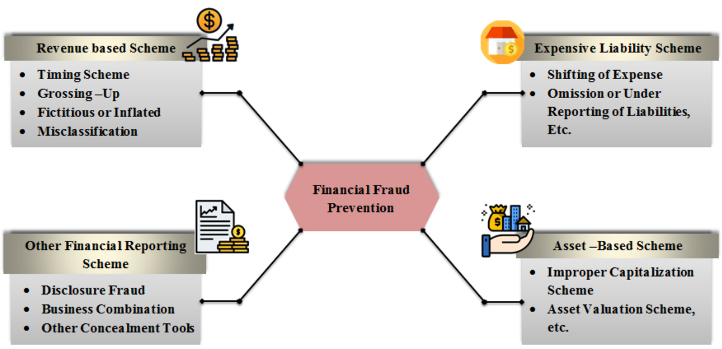

Figure 1: A Strategic Model for Financial Fraud Prevention

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Against this challenging backdrop, the incorporation of rigorous and resilient FR frameworks stands as a critical deterrent in the ongoing confrontation with financial fraud. A multitude of regulatory standards meticulously specify the duties that rest on the shoulders of auditors to alleviate the risks associated with fraud (such as those outlined by the PCAOB 2010, the IAASB 2009, PCAOB 2002, the AICPA from 2002, 1997, to as far back as 1988) [7, 8, 9]. These guidelines firmly posit the auditors' responsibility to provide stakeholders with the assurance that is both reasonable and vigilant, aiming to identify and forestall material distortions arising from financial fraud [7, 8, 9].

The incidence of fraud, while sometimes isolated within discrete facets of a company, more frequently assumes a systemic character, insidiously infiltrating across the spectrum of an entity's operational and financial domains [10]. It is of significant note that the origin of substantial fraudulent occurrences in notable corporations often correlates with failings in the FR apparatus [10]. The prevailing body of scholarly work has predominantly concentrated on crafting accounting methodologies to pre-empt fraudulent activity; nonetheless, the importance of a sound and fortified FR infrastructure is vital and cannot be excessively emphasized, given the extensive implications it holds for the prosperity and operational integrity of organizations [11].

In light of these considerations, the present study ventures to explore the application of accounting at the financial reporting level as a strategic measure against fraud. This inquiry aims to unravel the nuanced perspectives of auditors concerning procedures to combat fraud and to assess the implementation of strategies designed to prevent such malfeasance. Through a critical examination of these dimensions, the study endeavours to contribute to the literature by clarifying the interplay between FR practices and fraud prevention mechanisms, thus providing insights that may bolster the resilience of financial reporting against the insidious threat of fraud.

Literature Review

Timeliness and Quality of Audit Reports

One hallmark of auditor professionalism lies in the timely submission of audit reports. Auditing, though occasionally time-consuming, plays a pivotal role in ensuring the accuracy and reliability of financial reports. Investors, who heavily rely on audited financial statements for making informed investment decisions, greatly benefit from the assurance of auditor quality within capital and financial markets. The prevalence of accounting scandals underscores the imperative of rigorous analysis of financial statements to mitigate fraudulent activities [11, 12, 13].

Implications of Audit Delay

Tulus Suryanto [14] delved into the implications of audit delay on fraudulent Financial Reporting (FR) within the Indonesian stock exchange. The study revealed that variables such as company size, information systems, and operational performance significantly influence audit delay. Meanwhile, Dragomir Dimitrijevic et al. [15] analysed fraud indicators in FR using the Beneish model, discerning higher fraud risks among manufacturing firms and financial institutions in Serbia compared to trade and service sectors.

Detection and Influence of Fraudulent Financial Reporting

Stefani Lily Indarto and Imam Ghozali [16] identified and detected fraudulent FR on the Indonesian stock exchange, highlighting its correlation with financial stability, external pressures, and organizational capabilities. Additionally, Sawsan Saadi Halbouni [17] investigated auditors' perspectives on reporting, detecting, and preventing fraud, noting the relatively more stringent procedures adopted by external auditors compared to their internal counterparts.

Relationship Between Fraud Prevention and Financial Reporting Efficiency

Shadrack Maweu Kyalo et al. [18] demonstrated the influence of fraud prevention on efficient FR in Nakuru, emphasizing a significant positive correlation between fraud policy implementation and FR efficiency. Furthermore, Ahmad Sarwar Khan et al. [19] explored the impact of audit quality on fraud reduction within Small and Medium-sized Enterprises (SMEs) in Indonesia and Malaysia, revealing moderate effects of FR standards on audit tenure and fees.

Legal and Political Impacts on Fraud

Kishore Singh et al. [20] examined the interplay between FR, legal frameworks, and political regimes on fraud at a national level, elucidating the significant role of legal and political accountability theories in shaping fraud dynamics.

Each study contributes valuable insights into the multifaceted landscape of financial fraud prevention, underscoring the intricate interplay between audit practices, regulatory frameworks, and organizational dynamics.

Research Methodology

This study aims to scrutinize the adoption of accounting financial-level reporting for the prevention of financial fraud and delve into auditors' perceptions of fraud prevention procedures and approaches. Accordingly, this section delineates the data analysis strategies, data collection methods, population and study sample, and the research approach employed.

Research Design and Instrument

The research adopts a descriptive research design, adept at concurrently elucidating respondents' perceptions, beliefs, and viewpoints. This design is well-suited for capturing a snapshot of attitudes and opinions at a given moment. Employing a quantitative research technique, the study primarily relies on the collection of primary data. The principal data collection method entails the administration of a questionnaire, structured around a series of five-point Likert-type scales. Figure 2 illustrates the conceptual framework underpinning the research.

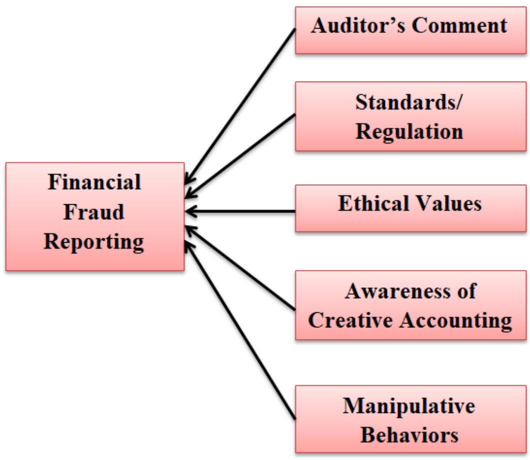


Figure 2: Framework of Reporting Financial Fraud

Research Sample and Technique

A sample of 220 respondents, comprising individuals from the external and internal audit departments of banking and financial institutions in major Indian cities such as Mumbai, Bangalore, Delhi, and Kolkata, was targeted for questionnaire dissemination. Employing a convenience sampling approach conducive to quantitative studies, a structured questionnaire was administered. The questionnaire consisted of two parts: the first segment gathered demographic information, including the respondent's company classification (international, regional, or local), while the second part delved into participants' perceptions regarding the adoption of accounting financial-level reporting for fraud prevention and auditors' perspectives on fraud prevention techniques. Subsequently, 199 respondents were selected for analysis, with 21 incomplete questionnaires excluded.

Data Analysis

Following questionnaire refinement, distribution commenced via email in late April 2023. The survey comprised both close-ended and open-ended questions, with responses analysed using descriptive statistics such as frequency distributions and percentages for data summarization. Tables were employed to present gathered data, facilitating ease of analysis and comprehension. Subsequent to data collection, preliminary analyses were conducted, encompassing descriptive statistics, regression analysis, and t-tests to derive insights.

Characteristics of Respondents

Table 1 provides an overview of the demographic characteristics of respondents and organizational backgrounds, highlighting pertinent statistics related to gender, professional qualifications, audit type, work experience, organization type, and company size.

Table 1: Information on the Background of Respondents and Organizations

Description	Frequency (N)	Percentage (%)
Gender		
Male	123	61.80
Female	76	38.19
Professional Qualifications		
Professional Certificate	75	13.56
Master's Degree	27	48.74
Bachelor's Degree	97	37.68
Audit Type		
Internal Audit	113	56.78
External Audit	86	43.21
Work Experience		
Less than 5 years	67	33.66
5 to 10 years	98	49.24
More than 10 years	34	17.08
Organization Type		
International Firms	20	10.05
Regional Firms	63	31.65
Local Firms	116	58.29
Company Size		
Small	55	27.63
Medium	27	13.56
Large	117	58.79

The table provides demographic and professional data on respondents of a survey. It shows a predominance of male participants at 61.80%. Regarding qualifications, most hold a Bachelor's degree (48.74%), with a significant portion having a Master's degree (37.68%). In the context of audit type, internal auditors are more represented than external auditors. Work experience is distributed with a majority having 5 to 10 years (49.24%), indicating a middle-level expertise among respondents. Over half of the respondents are from local firms, which could suggest the survey might reflect more localized industry practices. Lastly, a large company size is most common among respondents' organizations, possibly pointing to the survey targeting or being more relevant to larger firms. These demographics can heavily influence the survey results and their applicability to the broader auditing and financial community.

Adoption of Accounting Techniques for Financial Fraud Reporting

Table 2 delineates the adoption of accounting techniques for financial fraud reporting, examining respondents' perspectives on various factors such as auditors' comments, standards/regulations, ethical values, awareness of creative accounting, and manipulative behaviours.

Table 2: Preventing Accounting Techniques on Financial Fraud

	N	%	Valid %
Auditors' Comments			
Trustworthy	144	72.36	72.36
Untrustworthy	16	8.04	8.04
Neutral	39	19.59	19.59
Standards/ Regulation			
Irrelevant	19	9.54	9.54
Medium	92	46.23	46.23
Important	66	33.16	33.16
Less important	22	11.05	11.05
Ethical Values			
Strongly agree	28	14.07	14.07
Agree	73	36.68	36.68
Neutral	59	29.64	29.64
disagree	21	10.55	10.55
Strongly disagree	18	9.04	9.04

Awareness of Creative Accounting			
Very important	69	34.67	34.67
Less important	39	19.59	19.59
Neutral	91	45.72	45.72
Manipulative Behaviors			
Auditors	140	70.35	70.35
Accountant	33	16.58	16.58
Others	26	13.06	13.06

The table outlines survey responses regarding various aspects of fraud prevention in financial reporting. A majority of respondents view auditors' comments as trustworthy, with over 72% in agreement, underscoring the critical role of auditor feedback in fraud prevention. When it comes to standards and regulations, the consensus is that they are of medium to high importance, reflecting the belief in the efficacy of formal guidelines in deterring fraud. Ethical values are predominantly seen as agreeable or neutral by respondents, which could imply that while ethics are important, they might not be the sole factor in preventing fraud. Awareness of creative accounting techniques is quite polarized, with significant portions considering it very important or neutral. This suggests differing opinions on how awareness impacts fraud prevention. Finally, manipulative behaviours are mostly attributed to accountants, which indicates a need for strict ethical enforcement and education in the accounting profession.

Result and Discussion

In this section, the perceptions of auditors towards the prevention of financial fraud are presented, along with an analysis of the usage of fraud prevention techniques. Additionally, regression analysis is conducted to elucidate the standardized and unstandardized coefficients for various factors influencing financial fraud reporting.

Perceptions of Auditors to Prevent Financial Fraud

Table 3 presents an analysis of internal and external auditors' perceptions regarding the prevention of financial fraud. An independent-sample t-test was conducted to compare the perceptions of auditors across different statements.

Table 3: Analysis of Auditors' Perception of Preventing Fraud

Statements	Internal Auditors		External Auditors		F-Value	Sig.
	Mean	SD	Mean	SD		
S1-Determine any discrepancies, which were intentional or unintentional	3.96	1.99	4.33	0.613	5.92	0.023**
S2-Examine the factors that lead to fraudulent financial reporting	3.75	1.23	4.09	0.841	2.99	0.098*
S3-Uncover related party transactions	4.44	0.83	4.32	0.524	5.40	0.027**
S4-Evaluate 'substantial doubt' about the company's ability	3.82	1.16	4.41	0.821	3.43	0.075
S5-Determine the characteristics of assess management to financial fraud	3.67	1.43	4.07	0.888	7.50	0.009**

*Significant at the 10% level, **Significant at the 5% level

The table compares internal and external auditors' perceptions of various fraud prevention tasks. External auditors scored higher on average across all tasks, suggesting they might place a stronger emphasis on these aspects of fraud prevention. Internal auditors appear to show the greatest agreement on the importance of uncovering related party transactions, as indicated by the high mean and the lowest standard deviation. Notably, both groups consider the determination of intentional or unintentional discrepancies and the uncovering of related party transactions significantly important ($p < 0.05$). Assessing management's characteristics to financial fraud scored the lowest for internal auditors but was significantly higher for external auditors, which could indicate differing approaches or priorities in evaluating management's role in fraud prevention. The F-Value and significance levels indicate where the perceptions of the two groups are statistically different, which can be crucial for understanding their differing approaches to auditing and fraud prevention.

Usage of Fraud Prevention Techniques

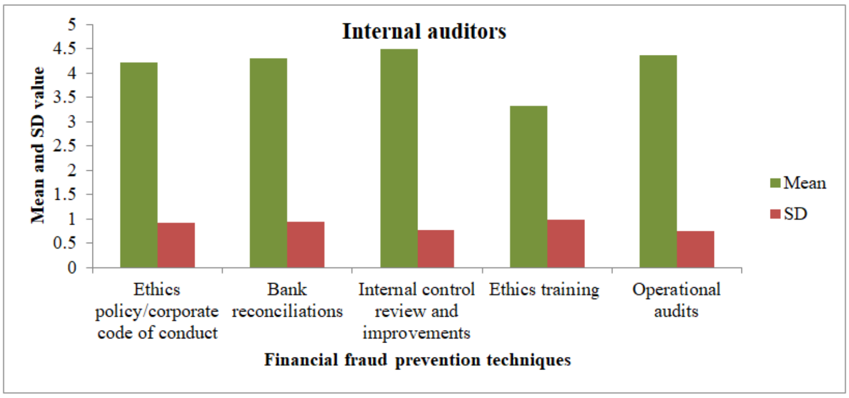
Table 4 provides a descriptive analysis of the usage of fraud prevention techniques among internal and external auditors, along with mean scores and standard deviations.

Fraud Prevention Technique	Internal auditors			External Auditors		
	Mean	SD	Rank	Mean	SD	Rank
Ethics policy/corporate code of conduct	4.22**	0.91	4	4.31**	0.684	4
Bank reconciliations	4.30**	0.93	3	4.46**	0.77	2
Internal control review and improvements	4.49**	0.78	1	4.46**	0.63	1
Ethics training	3.33*	0.99	5	3.70**	1.09	5
Operational audits	4.37**	0.74	2	3.95**	0.938	3

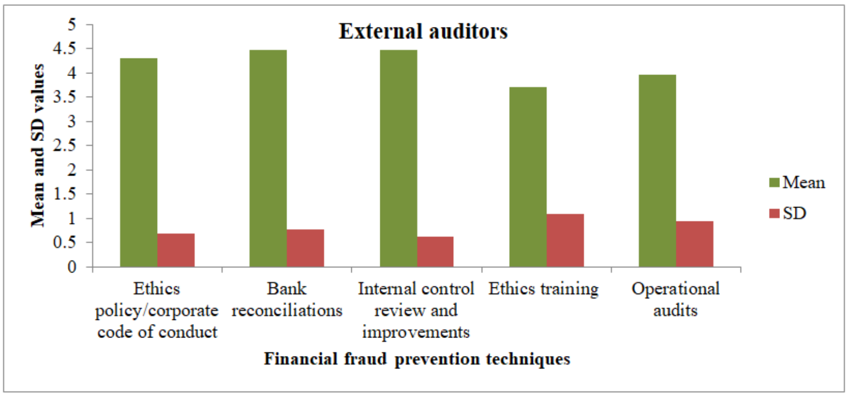
**p<.01 and *p<.05

This table presents a comparative analysis of the use of fraud prevention techniques by internal and external auditors, using mean scores and standard deviations to describe their preferences. Internal control review and improvements rank highest for both internal and external auditors, indicating a consensus on its importance in fraud prevention. Interestingly, bank reconciliations rank second for external auditors but third for internal ones, suggesting external auditors might prioritize financial transaction scrutiny more. Ethics training, despite being less emphasized, still maintains a respectable position in both groups. Operational audits are more favored by internal auditors than by external ones. The usage of ethics policy/corporate code of conduct is statistically significant in both groups, as indicated by the asterisks, highlighting its recognized value in the auditing process. The rankings and mean scores reflect the strategic focus areas each group believes are most effective for preventing fraud.

Figure 3: Exhibits a Graphical Representation of the usage of Prevention Approaches



(a)



(b)

Figure 3: Graphical representation of a) Internal auditors' perception of prevention technique and b) External auditors' perception of prevention technique

Regression Analysis

Table 5 presents the standardized and unstandardized coefficients for various factors influencing financial fraud reporting, as determined through regression analysis.

Table 5: Standardized and Unstandardized Significant Analysis

	Unstandardized coefficients		Standardized coefficients	t	Significance
	B	Standard error (SE)	Beta (β)		
(Constant)	3.983	0.432	-	8.711	0.000
Auditors' comments	0.309	0.119	0.318	2.811	0.009
Standards/ Regulation	0.284	0.148	0.228	2.014	0.055
Ethical Values	0.294	0.106	0.315	2.921	0.007
Awareness of Creative Accounting	-0.258	0.112	-0.262	-2.304	0.033
Manipulate Behaviors	-0.262	0.145	-0.215	-1.874	0.071

This regression analysis table identifies factors that influence financial fraud reporting. Auditors' comments, ethical values, and awareness of creative accounting all show statistically significant effects on financial fraud reporting, with auditors' comments and ethical values positively associated, and awareness of creative accounting negatively associated. The constant term is significantly different from zero, suggesting that other unlisted factors also significantly influence fraud reporting. Standards/regulations and manipulative behaviors have positive and negative associations respectively, with standards/regulations bordering on significance ($p = 0.055$) and manipulative behaviors not quite reaching the conventional cutoff for significance ($p = 0.071$). The standardized coefficients indicate that among the significant factors, awareness of creative accounting has the most substantial standardized impact, followed closely by auditors' comments and ethical values, indicating these areas are critical for understanding and addressing financial fraud reporting.

These findings underscore the multifaceted nature of financial fraud prevention, highlighting the importance of auditors' perceptions and the utilization of fraud prevention techniques in mitigating fraudulent activities within organizations.

Conclusion

This research delved into the realm of accounting financial-level reporting as a pivotal tool in the prevention of financial fraud. Through an investigation of auditors' perceptions towards fraud prevention procedures and the utilization of fraud prevention approaches, valuable insights were gleaned. Employing t-statistics and regression analysis, the study elucidated the nuanced dynamics surrounding financial fraud prevention.

The findings underscored the paramount importance of auditors' comments in influencing financial fraud reporting. Notably, auditors' comments emerged as the most impactful factor, with a high beta value ($\beta=0.318$) in the standardized coefficient and a significant significance level of 0.009. Furthermore, the analysis of prevention approaches usage revealed a strong inclination among both internal and external auditors towards the utilization of internal control review and improvement techniques, garnering significant mean scores of 4.49** and 4.46**, respectively.

This research contributes to a deeper understanding of the values, attitudes, and perceptions underpinning fraud prevention efforts, particularly in the context of mitigating financial fraud. However, it is important to acknowledge the limitations of this study, notably its focus on samples exclusively from metro cities. Future research endeavors should aim to expand the sample size and explore potential gaps in knowledge or competency among auditors regarding various prevention approaches aimed at reducing financial fraud.

By shedding light on the intricacies of financial fraud prevention and auditors' roles therein, this study paves the way for enhanced strategies and interventions geared towards safeguarding financial integrity in organizations.

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Annexure 1

21. Did internal auditors and external auditors determine any discrepancies, which were intentional or unintentional?
22. Are internal auditors and external auditors examining factors that could lead to fraudulent financial reporting?
23. Do internal and external auditors uncover the related party transactions?
24. Do internal and external auditors evaluate the 'substantial doubt' about the company's ability?
25. Do internal and external auditors determine the characteristics of assess management to financial fraud?
26. Is fraud considered as a major concern for companies?
27. Do you believe that detecting fraudulent activity would have a negative impact on the users of accounting information?
28. 8. Is the auditor responsible for reporting all findings of deficiencies and fraud in his/her report?.

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