The Impact of Fraud on the Detection of Fraud in Financial Statements and Discretionary Accruals (Meta-Analysis Study)

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Abstract: This article discusses the impact of fraud-on-fraud detection of financial statements and discretionary accruals through meta-analysis studies. Financial statement fraud is a serious problem that is increasingly prevalent in the global capital market, especially in developing countries such as China. This has driven the need for more sophisticated and effective detection methods. This study aims to identify factors that can affect the detection of financial statement fraud as well as the impact of fraud on the detection of financial statement fraud and discretionary accrual. This article also seeks to find better solutions in dealing with discretionary accruals that can affect investment decisions and public confidence in companies. The findings of the meta-analysis show that factors such as manipulation of accounting records, misrepresentation of information, and errors in the application of accounting principles can affect fraud detection. In addition, the impact of fraud on the detection of fraud in financial statements and discretionary accruals is also discussed comprehensively. This article suggests the need for more dynamic and responsive fraud detection methods to evolving risks.

Keywords: Fraud Impact, Financial Statement Fraud Detection, Discretionary Accrual, Meta Analysis

Introduction

Financial statements are one of the main sources of information for stakeholders in economic decision-making. Therefore, the integrity and reliability of financial statements are very crucial. Unfortunately, in practice, fraud is often found in the presentation of financial statements. Such fraud can be in the form of deliberate material misrepresentation, concealment of important information, or manipulation of financial data for certain interests. This phenomenon of financial statement fraud has become a serious concern among academics, practitioners, and regulators (Archna, 2024; Cai, 2024; Gupta, 2024).

Fraud is one of the broad socio-economic problems, which occurs in both the public and private sectors. This problem not only hampers the intermediation function of banks, but also negatively impacts the country’s economy as a whole. Therefore, effective fraud detection and prevention is essential for maintaining economic stability and public trust.
Some of the major cases of financial statement fraud that have ever occurred in the world, including the cases of Enron, WorldCom, HealthSouth, Satyam, and others. These cases have caused enormous losses to various stakeholders, including investors, creditors, employees, and the wider community. In addition, fraudulent financial statements can also damage public confidence in the integrity of the capital market and the accounting system as a whole. This, of course, can have a bad impact on a country’s economy (Aftabi, 2023; Shahana, 2023; Soltani, 2023).

Fraud has been described as a widespread socioeconomic disease, affecting the public and commercial sectors in various economies, including developing and developed countries. Types of financial statement fraud (FFR) include; 1) Manipulation, falsification, or alteration of accounting records or supporting documents related to financial statements; 2) Misrepresentation or intentional omission of events, transactions, or other important information in financial statements; 3) Abuse of accounting principles related to amounts, classifications, presentation methods, or disclosures in financial statements. In Nigeria, fraud is very widespread and affects all aspects of society, especially the public sector (Ashtiani, 2023; Wang, 2023).

Financial statement serves as fundamental documents for a company, constituting a crucial component of the annual report that reveals both historical and projected financial positions. However, it is difficult and uncommon to find accounting irregularities and financial fraud information manually only from financial statements at the surface level. In recent years, many researchers have implemented various approaches to detecting fraud using financial statements, such as analytical procedures, ratio analysis, distribution of scores through artificial neural networks, and checklists to improve the quality and efficiency of fraud detection (Chen, 2023; Rahim, 2023; Wasito, 2023).

To prevent and detect financial statement fraud, various parties have made efforts, both through the development of accounting standards, strengthening corporate governance, and improving auditor competence. One of the tools that is often used to detect financial statement fraud is discretionary accrual analysis. Discretionary accrual refers to the portion of accrual that is subject to management’s judgement and estimations, which can signal earnings manipulation or fraudulent activities. Many studies have been conducted to develop discretionary accrual-based financial statement fraud detection models (Ashtiani, 2022; Omeir, 2023).

Unfortunately, efforts to detect fraud in financial statements using discretionary accrual analysis also face challenges, especially related to the existence of fraud itself. Fraud committed by management can have an impact on the ability of detection models to identify fraud. For example, management can manipulate discretionary accruals to cover up fraud, making the discretionary accrual-based detection model less effective. In addition, fraud can also have an impact on audit quality, so that auditors become less effective in detecting fraud. The primary issue examined in this study is the various factors that can influence the detection of financial statement fraud, as well as the effect of such fraud on the identification of financial statement fraud and discretionary (Xiuguo, 2022; Zhang, 2022).

Therefore, this study seeks to examine how fraud affects the capability to detect fraud
in financial statement that are based on discretionary accruals (Yadav, 2022). This study will also examine the impact of fraud on audit quality as one of the fraud detection mechanisms. The study’s findings are anticipated to provide both theoretical and practical contributions to the efforts aimed at preventing and detecting financial statement fraud.

Research Method

The researcher used secondary data in the form of research results from several journal articles from international journal websites as the research object. Because the research method used is based on meta-analysis. Data were taken from various journals and articles from the international web, and samples were collected using the purposive sampling method. Which examines the influence of various factors. The data analysis used is meta-analysis, a promising approach to integrate the results of several existing articles and reviews to draw conclusions from the variables tested in this study.

Meta-analysis is an effective research method to integrate the results of various studies that have been conducted previously, thereby providing a more comprehensive understanding of the influence of opportunity and rationalization on fraud in financial statements. By combining data from different studies, meta-analyses can identify patterns, relationships and factors that may not be visible in individual studies.

In this study, the dependent variables used are Financial Statement Fraud Detection and Discretionary Accruals. The independent variables in this study include various cheating factors. The data collection technique in this study is an observation technique with a documentation approach, namely recording and analyzing official external secondary data sources in the form of research results from several international journal articles that research on the influence of various fraudulent factors on financial statement fraud. The journal articles whose data were used were those whose research period was between 2012 - 2022 and the journal articles were downloaded from Google Scholar, Taylor and Francis, ScienceDirect, Emerald, and others. Our research entitled "The Effect of Fraud on the Detection of Fraud in Financial Statements and Discretionary Accruals" was conducted with a literature study. The data analysis technique used in this study is quantitative using the Meta Analysis method.

Result and Discussion

Results
The Effect of Opportunity on Financial Statement Fraud

Based on the findings of Okafor, K.J & Egbunike, P.A. (2023) meta-analysis, it was found that there exists a notable (negative) correlation between opportunity and financial statement fraud in deposit banks. This suggests that as the opportunity for fraud increases, the profitability of fraud decreases. This underscores the critical role of rigorous interval oversight and control in mitigating fraud risk. The study’s result highlight that inadequate supervision does not impact the detection of financial statement fraud.
Egolum, Okoye, and Eze (2019) conducted a study on 12 companies from 2016 to 2019, using purposive sampling. The findings revealed that factors such as changes in total assets, return on assets (ROA), insider share ownership, related party transactions, the presence of independent audit members, changes in public accounting firms, and alterations in the board of directors did not influence financial statement fraud. Conversely, the study indicated that financial targets, industry characteristics, and auditor opinions significantly impacted financial reporting fraud. However, financial stability, external pressure, institutional ownership, the number of audit committee members, ineffective monitoring, the quality of external auditors, auditor turnover, board turnover, the proportion of independent commissioners, and the number of CEOs did not show a significant effect on financial reporting fraud.

The Effect of Rationalization on Financial Statement Fraud

The findings of the meta-analysis suggest a significant negative relationship between rationalization and financial statement fraud in deposit banks. This implies that as the level of rationalization by the fraudster increases, the likelihood of fraud decreases. Hence, understanding the factors that influence rationalization in the context of financial fraud is crucial. Additionally, the study indicates that changes in auditors do not impact the detection of financial statement fraud. It is essential for rationalization to be justified before a fraudster can commit the fraudulent act.

Skousen, Smith, and Wright (2009) contend that rationalization can be gauged through auditor turnover. However, others believe that accruals reflect management’s decision-making processes and offer insights into their rationalization of financial reporting. Rationalization is typically considered beyond the control of management and internal auditors, as individuals committing fraud often justify their actions as being in line with ethical codes. This justification is frequently due to the fact that trusted individuals are placed in positions where fraud can occur.

Pressure and Discretionary Accrual

According to the findings of research conducted by Shina, O.O., John-Akamelu, C.R., & Super, S.O. (2024), pressure has a positive and significant effect on discretionary accruals in deposit-taking banks. This suggests that when bank managers and employees experience financial stress or personal pressure, they are more likely to engage in manipulative accounting practices to meet targets or conceal unfavorable performance. Pressure to achieve financial goals, maintain market share, or earn bonuses and promotions can lead to the use of discretionary accruals to inflate revenues or reduce liabilities. These findings imply that banks should implement robust internal controls and risk management frameworks to mitigate the impact of stress on employee behavior and financial reporting.

Discretionary Opportunity and Accrual

The results of the study show that opportunity has a positive and significant influence on discretionary accrual. This implies that when depository banks have weak internal
controls, weak oversight, or inadequate separation of duties, it provides opportunities for employees to exploit the system and engage in fraudulent accounting practices. Weak corporate governance, lack of proper checks and balances, and inadequate oversight of the financial reporting process can create an environment where employees can manipulate accounting records and financial statements. The study emphasizes the importance of strengthening internal controls, improving corporate governance, and improving audit quality to reduce the chance of fraud.

Rationalization and Discretionary Accrual
This study found that rationalization had a positive and significant effect on discretionary accrual. This suggests that when bank employees or managers can justify or rationalize their unethical behavior, they are more likely to engage in manipulative accounting practices. Factors such as perceived injustice within the organization, a sense of entitlement, or a culture that is less ethical can lead individuals to rationalize their cheating actions. These findings highlight the need for banks to foster a strong culture of ethics, promote whistleblowing mechanisms, and provide ethical training to employees to reduce the prevalence of rationalization.

Discretionary Capabilities and Accruals
The results of the study show that capability has a positive and significant effect on discretionary accrual. This implies that when a bank employee or manager has the necessary expertise, knowledge, and authority to override internal controls, then they are more likely to engage in fraudulent accounting practices. Individuals with advanced technical expertise, decision-making power, and influence within organizations can exploit their ability to manipulate financial records and circumvent control systems. The study underscores the importance of implementing a strong separation of tasks, effective monitoring, and a comprehensive training program to mitigate the risks associated with individuals with the ability.

Arrogance and Discretionary Accrual
The research indicated that arrogance had a positive but non-significant impact on discretionary accruals. This implies that while arrogance, defined by feelings of superiority, entitlement, and resistance to criticism, may foster fraudulent behavior, it does not hold statistical significance within Nigerian depository banks. The study suggests that other factors like pressure, opportunity, rationalization, and ability likely exert a stronger influence on discretionary accruals in the banking industry.

The Effect of Cash Flow Trend (CFT) on Financial Reporting Fraud
Based on a meta-analysis conducted by Oluwagbade, O.I., Oshatimi, O.O., Omomeji, J.O., & Fasam, M.M. (2023), the findings indicate that cash flow trends (CFT) have an insignificant negative impact on fraudulent financial reporting among banks listed on the IDX. This suggests that whether cash flow trends are excessively high or suboptimal, they
do not significantly influence fraudulent activities. It underscores the importance for managers to monitor cash flow trends closely to prevent deterioration in the bank's financial health, as excessive operating cash flow might reflect poor managerial decisions. Conversely, unstable or declining cash flow trends could potentially motivate managers to resort to financial fraud to enhance the bank's financial position.

**The Effect of Related Party Transactions (RPT) on Financial Reporting Fraud**

The meta-analysis results indicate that related party transactions (RPT) have an insignificant impact on fraudulent financial reporting among commercial banks listed on the IDX. While not statistically significant, this suggests that the presence of related party transactions may signal weak corporate governance, potentially compromising the quality of financial reporting. Shareholders should vigilantly oversee companies to detect related party transactions, as they can highlight governance deficiencies that might facilitate financial reporting fraud.

**The Effect of Economic Sluggishness (ECD) on Financial Reporting Fraud**

The meta-analysis findings indicate that economic conditions (ECD) have a significant negative impact on fraudulent financial reporting among deposit banks listed on the IDX. This contrasts with the fraud diamond theory, which suggests that unfavorable economic conditions could motivate managers to engage in financial reporting fraud. However, in the Nigerian context of deposit banks, a weakened economy actually diminishes the likelihood of fraudulent activities by managers. This could be attributed to increased regulatory scrutiny and heightened oversight from stakeholders during economic downturns, which reduces the opportunities and incentives for managers to commit fraud in financial reporting.

**Effect of Pressure from Earning Forecast (PEF) on Fraudulent Financial Reporting**

The meta-analysis findings indicate that profit expectation pressure (PEF) has a significant positive impact on fraudulent financial reporting among commercial banks listed on the IDX. This aligns with the fraud diamond theory, which suggests that internal and external pressures can drive managers to engage in financial reporting fraud. In the context of Nigerian depository banks, the pressure to achieve profit targets may motivate managers to manipulate financial reporting to meet these expectations. Such actions can undermine the credibility and transparency of financial information reported by these banks.

**Using deep learning to detect fraud**

According to findings from a meta-analysis by Wu Xiuguo and Du Shengyong (2022), the conventional manual detection method is not only laborious, imprecise, and intricate, but also unsuitable for handling extensive and unstructured financial data. Typically, skilled analysts derive conclusions not solely from numerical financial statement data, but also from supplementary company-related information, including textual analysis of
managerial remarks.

Based on the meta-analysis results, few researchers have employed text data for detecting financial statement fraud. The Management Discussion and Analysis (MD&A) section in annual reports of Chinese-listed companies serves as a textual complement to numerical data, and some studies have explored its potential to predict financial statement fraud. However, there is still a need for a comprehensive framework utilizing textual features, particularly for analyzing Chinese text data in the context of detecting financial reporting fraud.

Based on the meta-analysis, deep learning (DL) is recognized as a potent technique for modeling that efficiently uncovers concealed insights within vast datasets. However, current research predominantly emphasizes digital data applications of deep learning methods like Convolutional Neural Networks (CNN) and Recurrent Neural Networks (RNN). Additionally, the selection of fraud factors continues to rely primarily on experiential insights and expert knowledge.

The Role of Part-of-Speech (POS) Features in Financial Fraud Detection

A meta-analysis by Hao Sun, Jianping Lie, and Xiaoqian Zhu (2023) found that the Part-of-Speech (POS) feature of textual risk disclosures significantly enhances the detection of financial fraud. POS analysis quantifies linguistic characteristics like the use of nouns, verbs, and adjectives. The authors suggest that distinct language patterns between fraudulent and non-fraudulent companies can be identified using this POS feature.

The study also revealed that integrating POS features with common financial variables significantly boosts fraud detection performance. This suggests that textual risk disclosures can effectively complement traditional financial data in detecting fraud.

This study provides theoretical guidance for the integration of textual information, specifically risk disclosure, in the detection of financial fraud. The authors emphasize that textual information can be a valuable source of data to complement traditional financial information in fraud detection efforts. In addition, the POS feature analysis method used in this study can be applied to other types of text relevant to fraud, such as management communication or media news.

The relationship between investors' heterogeneous beliefs and financial fraud

A meta-analysis conducted by Zihan Liu, Haoyuan Chen, Yuanke Zhang, and Jingyu (2022) reveals that heterogeneous investor confidence has a significant positive correlation with financial fraud in public companies in China. This finding aligns with previous studies indicating that differing beliefs among investors can incentivize companies to engage in financial fraud.

Heterogeneous investor beliefs can reflect different expectations, information, and judgments among investors regarding a company’s prospects. When there is a significant difference in confidence, companies may be tempted to hide or manipulate financial information in order to meet the expectations of certain investors and maintain the stock price. In other words, companies can commit financial fraud in an attempt to manage
heterogeneous investor confidence. This implies that regulators and investors need to pay attention to heterogeneous indicators of investor confidence as a signal of potential financial fraud in public companies. Heterogeneous investor beliefs can be valuable additional information in identifying the likelihood of financial fraud practices.

**Improved accuracy of financial fraud identification by taking into account heterogeneous investor beliefs**

The meta-analysis results also demonstrated that incorporating heterogeneous indicators of investor confidence enhanced the accuracy of financial fraud detection across six machine learning models. This indicates that accounting for diverse investor beliefs adds significant value to detecting fraudulent behavior.

The machine learning models used in this study were logistic regression, decision tree, random forest, gradient boosting, support vector machine, and artificial neural network. Including variables related to heterogeneous investor confidence improved the performance of these models in identifying financial fraud, compared to using only financial variables and company characteristics.

The results of this study provide practical implications that regulators and investors can utilize information about investors' heterogeneous beliefs as one of the indicators in developing an early detection system for financial fraud. These indicators can be integrated into predictive models or early warning systems used to monitor fraudulent practices in public companies.

**The role of heterogeneous investor confidence in financial fraud practices**

Conceptually, heterogeneous investor beliefs can encourage companies to commit financial fraud through several mechanisms, namely:

1. Profit management

   The existence of heterogeneous investor confidence can encourage company management to carry out profit management. Companies may be encouraged to manipulate financial information in order to meet certain investor expectations and maintain stock prices. This profit management practice can eventually develop into more serious financial fraud.

2. Information asymmetry

   Differences in beliefs among investors can also reflect the information asymmetry between the company’s management and investors. Management may have personal information that is not disclosed to the public, so it can use it to commit financial fraud.

3. Incentives for manipulating information

   Heterogeneous investor beliefs can create incentives for companies to manipulate financial information. For example, if there is a group of investors who have strong influence and expectations that differ significantly from the real condition of the company, then management may be encouraged to hide or manipulate financial figures to match the expectations of those investors.
4. Lack of transparency and oversight

The existence of heterogeneous investor confidence can also reflect a lack of transparency and adequate oversight of a company’s financial reporting practices. When there is a significant difference in valuation among investors, this can be an opportunity for management to conceal information and commit fraud.

Identify Companies That Have the Potential to Commit Financial Fraud

Based on the results of a meta-analysis conducted by Huidong Wu, Yanpeng Chang, Jianping Li, and Xiaoqian Zhu (2022), a knowledge graph-based reasoning framework effectively identifies companies with the potential to commit financial fraud. The researchers discovered that tracing the paths of companies previously known to commit fraud allowed for accurate identification of other companies likely to engage in fraudulent activities.

New Audit Features Related to Financial Fraud

In addition to identifying companies with the potential to commit fraud, the study also uncovered two new audit features related to financial fraud. These features are:

a. Abnormal audit opinion issued by the auditor

These findings suggest that an unreasonable or deviating audit opinion from the standard can be a potential indicator of financial fraud practices. Regulators and auditors can pay attention to and further investigate companies that receive abnormal audit opinions.

b. Abnormal auditor associations

The study also found that unusual associations or relationships between companies and public accounting firms can be a sign of fraudulent practices. The unusual pattern of relationship between the company and the auditor can be one of the focal points in fraud detection efforts.

Based on the results of the meta-analysis, these findings can aid regulators and auditors in identifying potential signs of financial fraud that may have previously gone undetected. By taking into account these newfound audit features, they can more effectively direct their audit and surveillance efforts.

Through knowledge graphs, researchers can find and understand patterns that may not be obvious in fragmented audit data sets. The knowledge graph's ability to combine and present information in a structured manner allows for a more comprehensive analysis of financial fraud practices.

Additionally, the knowledge graph-based reasoning framework proposed in this study has proven effective in identifying companies with the potential to commit fraud. The Sub Feature Extraction method used allows the tracing of traces of companies that have been known to commit fraud to find other companies that have the potential to engage in similar practices.
Discussion

Fraud Factors Against Fraud Detection of Financial Statements and Discretionary Accrual

Financial statement fraud and discretionary accrual are unethical acts committed by company management to manipulate financial information presented to the public and other stakeholders. This fraud can harm investors, creditors, employees, consumers and the wider community. Therefore, it is necessary to carry out early detection of financial statement fraud so that the negative impact can be reduced.

Several previous studies have proven that financial statement fraud can negatively affect a company's performance. Examples are a decline in stock values, a decline in investor confidence, an increase in capital costs, an increase in the risk of bankruptcy and potential legal prosecution. This shows that financial statement fraud has a wide impact not only on fraudulent companies but also on all stakeholders. Therefore, early detection will provide benefits to minimize its negative impact.

One of the factors that can affect the detection of financial statement fraud is the complexity of the company's business transactions. The more complex a company's business activities are, the more difficult it will be to detect whether there are indications of irregularities or not. The complexity of business transactions can provide a wider scope for management to manipulate and hide traces of fraud.

Business complexity extends beyond the types of products and services offered, encompassing the intricacies of the production process, supply chain, distribution network, and the geographical reach of business operations. The broader a company's business activities, the more challenging it becomes for external auditors and capital market authorities to perform thorough supervision and inspection. This complexity provides opportunities for management to engage in improper accounting practices.

One example of business complexity that can affect fraud detection is multinational companies with cross-border business activities. Various factors such as differences in accounting regulations between countries, transactions with foreign currencies, the lack of an integrated international financial reporting system, and work culture in each country can make the supervision process difficult. The extensive scope of business operations creates opportunities for fraud that are challenging to prevent. Currently, there is no standardized global financial reporting framework to address this issue effectively.

The current development of information technology also affects the complexity of business transactions. Many companies have now relied on information technology systems to support their business processes, both on a small and large scale. A sophisticated system does make it easier to manage a business, but on the other hand, it also opens a gap for fraud because of its complex and layered nature. An example is the use of system-based accounting tools such as ERP and mobile applications that are easy to change data.

The use of Big Data and other digital technologies is increasingly enabling manipulation and concealment of digital footprints for fraudulent purposes. In fact, supervision by external parties has become more difficult because of the dependence on the system. In fact, fraud in a complicated system is even more difficult to detect. For example, technology companies such as startups whose businesses rely heavily on databases and
In addition, the move to cloud computing systems also affects the company’s internal control, so the scope of deviations can be expanded. For example, the company outsources the database to a third party, then manipulates the data and processes for fraudulent purposes remotely. Even though the auditor does not have direct access to the company’s database stored on a third-party cloud server. This makes it difficult to audit and examine potential irregularities and fraud.

Business complexity more broadly is also related to the structural complexity of the organization. Complex and hierarchical organizational structure configurations allow for communication difficulties between units and violations of the check and balance internal control mechanism. Especially if the organizational structure is layered with a wide network of cooperation, it will be more likely that there will be concealment and manipulation of abnormal business activities.

For example, the existence of subsidiaries, associate entities, affiliated companies, consortiums, and various special entities outside the parent company structure. Coordination and information integration from these units has become increasingly difficult, so the chances of irregularities and fraud increase. Not to mention if the ownership and management structure is also complex with many related parties such as conglomerate companies. The internal surveillance process becomes more complicated to detect violations that occur.

Business complexity also includes the complexity of a company’s products and services. The more varied and diverse the products and services offered, the more difficult it will be for companies to keep an eye on the whole. For example, telecommunications, banking, and insurance companies that offer a wide variety of products under one banner. The potential for irregularities will be greater related to the distribution of bad credit loans into productive assets, fake insurance claims, manipulation of customer data, and various other deviant practices.

Complexity due to industrial characteristics also influences. For example, the tourism and hospitality industry has a business cycle that is erratic with the seasons and other factors beyond the company’s internal control. The manufacturing industry with global supply chains faces various geopolitical risks and foreign currency fluctuations. This uncertain condition provides opportunities for irregularities and disorientation of the company’s internal control.

**Impact of Fraud on Fraud Detection of Financial Statements and Discretionary Accrual**

Fraud in financial statements is an act that is carried out deliberately to deceive users of financial statements. This can involve manipulating a company’s revenue, expenses, or assets to give a false picture of its finances. This practice not only undermines stakeholder trust but also undermines the integrity of the financial market as a whole. In the context of discretionary accrual, management has the freedom to choose when and how to recognize revenues and expenses, which provides opportunities for manipulation.

Fraud in financial statements and discretionary accruals can adversely affect auditors’
efforts to detect irregularities. The following will explain the effects of fraud on detection by auditors.

One of the main impacts of fraud on detection is the increased complexity and complexity of accounting data. Fraud is often concealed through complex accounting techniques, which require in-depth analysis to identify. For example, management may use complicated intercompany transactions or cost transfers between accounts to cover their footprints. External auditors need to have a deep understanding of the business operations and accounting systems that the company uses to detect such anomalies.

Auditors often rely on a company's internal control system as part of their audit strategy. However, if the system has been compromised by fraud, the auditor's ability to detect issues becomes severely limited. Management involved in fraud can manipulate internal control systems to hide their actions, for example by granting limited access to auditors or altering transaction records.

Management has a great influence in the process of preparing financial statements and can influence auditors in a variety of ways. This includes providing limited information, blocking access to documents, or pressuring auditors not to disclose negative findings. This influence can hinder auditors from performing their duties effectively and increase the risk that fraud goes undetected.

In the digital age, technology plays a dual role in fraud detection. On the one hand, advanced technologies such as data analytics and machine learning can be used to identify unusual patterns and anomalies in financial data. On the other hand, fraudsters can also take advantage of technology to hide their activities, using specialized software to manipulate financial records and avoid detection.

Management frequently utilizes discretionary accruals to manipulate a company’s earnings. This can be done by delaying expense recognition or accelerating revenue recognition, depending on the goal to be achieved. This manipulation gives a false picture of a company’s financial performance, which can mislead investors and other stakeholders.

When discretionary accruals are manipulated for fraudulent purposes, the credibility of a company’s financial statements decreases. Investors, creditors, and other stakeholders may lose confidence in the integrity of financial statements, which can negatively impact the company’s stock value and reputation. This loss of trust can also affect the company’s ability to obtain funding in the future.

Investors and financial analysts use financial statements to make investment decisions. If financial reports are distorted by fraud using discretionary accruals, decisions based on misinformation can result in substantial financial losses.

Fraud can obscure or hide a variety of important indicators that should be a red flag for auditors. For example, by increasing uncollectible receivables unreasonably without any supportive business changes. The growth of receivables should be an early indicator of potential irregularities, but with the manipulation of reports, these indicators are not detected. In fact, indicators are an important clue for auditors to conduct further examinations.

In addition, fraud can also affect the company’s financial ratios which are often a
performance measurement tool for auditors. For example, by increasing profits through discretionary accruals, the profitability ratio will increase even though core performance does not. In fact, ratios are the first tool to analyze company performance. If the ratio looks healthy but has actually been affected, then it will be difficult for the auditor to suspect potential deviations based solely on the ratio analysis.

In addition, cash flow analysis also becomes less reliable for the purpose of detecting irregularities if the report has been manipulated. For example, by recording uncollectible receivables as sales or recording future expenses, cash flow becomes less transparent. In fact, cash flow analysis is one of the important techniques for fraud detection.

Long-lasting fraud also risks reducing the detection time period because the auditor only has one period of data on each audit process. While traces of cheating may be far in the past.

Another consequence is that fraud often involves the disappearance or concealment of crucial documentary evidence. This certainly greatly complicates audit efforts that rely on document analysis. In fact, document analysis is one of the main techniques for detecting irregularities.

In addition, fraud involving company assets can make it difficult to physically examine these assets. For example, by hiding or changing the location of the asset so that it is difficult to verify physically. In fact, physical examination is one of the standard audit procedures.

Fraud also tends to complicate the process of consulting with management by providing makeshift information and covering up problems. In fact, consulting is important for auditors to understand various business risks in depth.

Another consequence is that fraud can obscure the auditor's overall understanding of the client's business in various ways such as hiding business information, giving biased explanations, or directing the auditor's examination focus. This certainly makes it very difficult to audit audit efforts.

From the various impacts above, it can be concluded that fraud is a serious obstacle to the detection of irregularities by auditors because it eliminates various important clues, evidence, and understanding that the auditor should have. Therefore, special efforts and increased professional skepticism from auditors are needed to be able to anticipate the adverse effects of such fraud.

One of the important efforts that can be made is to improve the understanding of fraud risk factors based on past experience. That way, it is hoped that auditors can be more vigilant about high-risk areas of fraud even though no indications have been detected.

Auditors also need to strengthen analytical review procedures by increasing the scope of data to detect inconsistent symptoms, regardless of whether they arise from the financial statements themselves or from other data sources.

In addition, it is necessary to strengthen the procedure for documenting audit results (audit working papers) and networking with management so that it is more difficult to manipulate. Audits with high principles of professional skepticism also play an important role in anticipating the negative impact of fraud on the audit process.

Various efforts such as improving the understanding of fraud risk, strengthening
analytical procedures, documentation, and professional skepticism are expected to reduce the negative impact of fraud on audit effectiveness. However, on the other hand, fraud still poses a challenge and a severe obstacle to the achievement of the main objective of auditing, which is to provide adequate confidence in financial statements.

**Conclusion**

Fraudulent activities in financial statements, particularly involving discretionary accruals, adversely affect multiple stakeholders including investors, creditors, and the broader community. Such fraud can lead to decreased company performance, resulting in lower stock values and heightened bankruptcy risks. Hence, timely detection is crucial to mitigate these negative impacts and uphold the integrity of financial reporting.

The complexity of a company’s business transactions makes it difficult to detect fraud. The more complex the business activity, the more difficult it is to detect indications of irregularities. This complexity includes the types of products and services, production processes, supply chains, distribution networks, and geographic scope of business activities, all of which provide room for management to manipulate.

The development of information technology adds complexity and opportunities for fraud in business transactions. Advanced systems such as ERP and mobile applications make it easier to manage businesses, but they also open up loopholes for data manipulation. The use of Big Data and other digital technologies allows for the concealment of digital footprints, making oversight by external parties more difficult.

Fraud in financial statements and discretionary accruals often involves complex accounting techniques and manipulation of internal control systems, making it very difficult for auditors to detect. The complexity and complexity of accounting data generated by fraud requires in-depth analysis and a deep understanding of a company’s business operations and accounting systems.

Enhanced comprehension of fraud risk factors and more robust analytical review processes are essential to preemptively address the adverse effects of fraud detection. Improving documentation of audit findings, fostering closer collaboration with management, and employing professional skepticism are critical steps in mitigating the detrimental effects of fraud on audit efficacy, despite existing challenges.

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