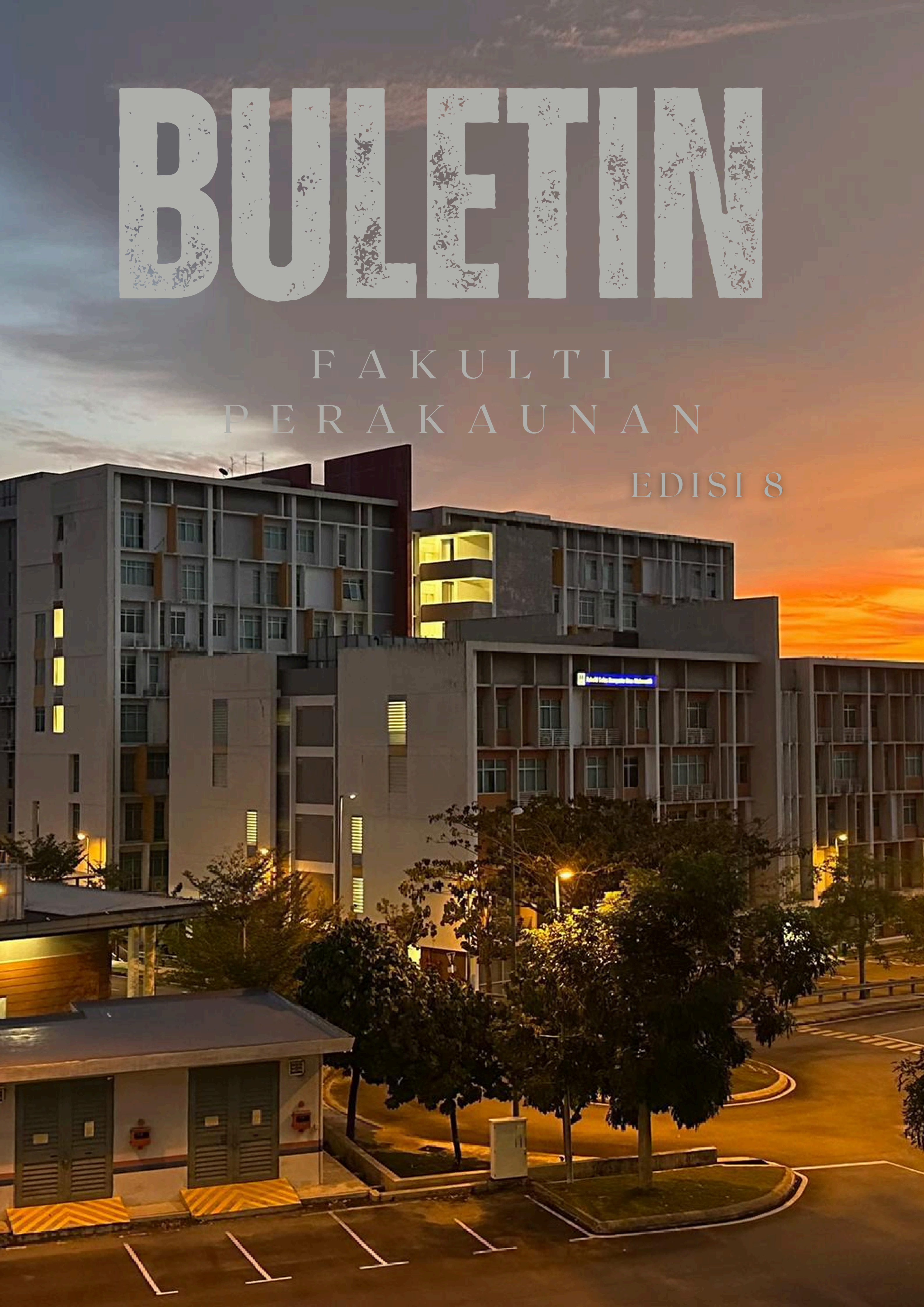
BULETIN

FAKULTI PERAKAUNAN

EDISI 8



Common Types of Fraudulent Accounting

Akma Hidayu Abdul Wahid and Rafizan Abdul Razak

Accounting fraud occurs when an individual knowingly alters financial documents to provide a false impression of a company's financial health. Several distinct forms of accounting fraud are more common than others. Among these are the following: overstatement of income, misrepresentation of assets, understatement of expenses.

There are several methods by which a firm might intentionally inflate its reported income. A firm, for example, will acknowledge the sales prior to their realization or before receiving money. Simply put, the timing of acknowledging income is incorrect. For example, changing the date of an event to occur after the end of the year allows for extra sales transactions for the present year. Another method involves generating counterfeit invoices. In 2022, Securities Commission Malaysia reported that Serba Dinamik was prosecuted in the Kuala Lumpur Sessions Court for providing a false statement about Serba Dinamik's revenue to Bursa Malaysia Securities Berhad. The charge that was preferred under section 369(a)(B) of the Capital Markets and Services Act 2007 ("CMSA") was related to Serba Dinamik's Quarterly Report on the Consolidated Results for the Quarter and Year Ended 31 December 2020 (*Securities Commission Malaysia, 2022*).

A company may also fail to maintain accurate records of its expenses with the intention of artificially inflating the stated nett earnings. When understating expenses, a business may neglect to accrue expenses for services consumed within the month but not yet billed to the business. This also results in certain liabilities being "off the books" or fail to disclose accounts payable. Example of this type of fraud case is Granite Construction - Inflation of financial performance. In August 2022, civil engineering and infrastructure firm Granite Construction reported. Misconduct carried out by their former senior vice president and group manager, Dale Swanberg. The misconduct involved Swanberg's manipulation of a particular project's profit margins and not recording the costs. The SEC fined the company \$12m for this financial misconduct. (*Vivek Dodd, 2023*). Another example is Americanas SA- Supplier finance. In October 2022, the accounting scandal at Brazilian retailer Americanas SA, which resulted in a \$4 billion mismatch in its balance sheet, involves a regularly used but obscure financial procedure called supplier finance. Supply-chain financing, also known as reverse factoring, uses loose accounting laws to make a company's financial condition look better than it

is. A third party or bank pays a company's suppliers ahead of schedule and at a discounted rate, conceal its debt. (*Vivek Dodd, 2023*).

Accountants should keep an eye out for warning signs in their routine work before delving too deeply into potential cases of fraud. If an industry is having problems and the business remains untouched, that could be one possible justification for taking a deeper look. Another warning sign is when a business reports increasing sales, particularly at the end of the year, but the cash flow is not increasing. Accountants could use financial ratios as a tool to predict false financial reports. Financial ratios facilitate the identification of valuable financial connections among various components of financial records, thereby enabling further investigation. All other financial ratios, except for the gross profit-to-assets ratio and the portion of inventory-to-total assets, have a strong correlation with false financial records (Sphatis, 2002).

These incidents have undoubtedly sparked some critical conversations about auditors' responsibilities. Should we hold auditors accountable for their inability to detect fraud? While conventional rules-based methods have been successful in spotting known fraud trends, new AI-based techniques promise more accurate and efficient fraud detection, especially in view of changing fraud schemes and growing volumes of financial data. To combat fraud, businesses should develop best practices, processes, and training.

References

Securities Commission of Malaysia (2022). Case compounded. https://www.sc.com.my/regulation/enforcement/actions/cases-compounded/cases-compounded-in-2022

Spathis, C. (2002). Detecting false financial statements using published data: some evidence from Greece. Managerial Auditing Journal, 179-191.

Vivek Dodd (2023). The world's biggest Accounting Fraud Scandals. https://www.skillcast.com/blog/accounting-fraud-scandals