Multidisciplinary

Prevention of financial crime: review of modern accounting technique

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Abstract
Purpose: This article will examine the concept and practice of creative accounting, including how it is circumvented and how it might lead to financial crimes. The procedure that is followed and the individuals who are involved and who are the victims of these acts. The means employed and the manner in which the action is carried out. The primary objective of the study is to examine the findings of different researchers who have investigated the same issue and to propose solutions.
Design/Methodology/Approach: This study is intended to investigate the operation of accounting policies and how loopholes in the same can be actually accounted for, resulting in specific number games that can be played around it, in order to get the desired result in the creation of financial statements.
Findings: Creative accounting, though legal and acceptable around the world, opens the door to loopholes granted by the laws and regulations controlling the preparation of financial statements, ultimately leading to financial crimes and harming the economy overall.
Research limitations/Implications: This study is limited by the fact that it is an empirical study, since a large number of papers and articles were reviewed prior to giving it form and drawing a conclusion. Although creative accounting is not prohibited, its excessive use has had frightening implications on financial accounts, leading to financial crimes and the theft of people's money across the globe. Due to the fact that investors' hard-earned money is being stolen and no action can be taken because the system and legal organizations are still attempting to control the problem, it is crucial to acquire knowledge about creative accounting.

Keywords: accounting, financial crimes, laws and regulations

Introduction

The periodic publication of financial statements (FSs) by companies is the source of information for all users of the statements, who make decisions based on the information included in these statements. The information offered by firms typically encourages investors to invest in the companies with the goal of maximizing wealth and profits. The firms have occasionally used these FSs to deliver misleading/ altered information to genuinely create a greener picture in the eyes of the users to benefit from the same. The manipulation of FSs has caused us issues in the past and continues to do so today. Frauds like as Enron, World Com, Sahara Group, P.N.B., and many more, in which manipulated FSs have given financial crimes a new dimension and wreaked havoc in the economic world, are on the rise. The investors and other users of the FS base all of their decisions on the information provided to them. The curiosity of the users of the FS as to what is going to be the next financial report and how it will be, GOOD or BAD. However, it is not always the firm's performance that is GOOD or BAD; sometimes it is the accountants of the firm that present the statements according to the firm's requirements.

Creative accounting refers to the practice of preparing a company's financial statements in accordance with the management's specifications in order to offer the desired image of the business (CA).

Copeland (1968) [16] was one of the researchers that used the term "accounts manipulation" for the first time. He exhibited the increase and decline of data in FS to show the picture of the firm properly. Adding to the concept, Stolowy and Breton (2000) [58] developed a two-way aspect for accounts manipulation based on systematic and financial risk and utilized two separate names as earning management and creative management, which currently are being used as synonyms. CA is primarily used in Europe, however in the USA, we use "earning management" (Amat and Gowthorpe, 2004) [5]. Susmus and Demirhan (2013) [60] provided various other terminology as synonyms for CA such as financial engineering, cosmetic accounting, window dressing, inventive accounting, and income\ssmoothing. CA refers to novel techniques to display accounts, which break from accounting norms, to give a good picture of the financial health of a corporation. CA has been the most-discussed topic following the collapse of large U.S. corporations, and surprisingly, the cause of each collapse was CA, whether it was Enron, world.com, or Arthur Anderson. It was CA and its impacts which laid to the passing and implementation of the legislation such as SOX (Zimmerman, 2015) [64]. Despite the implementation of a number of preventative measures, companies continue to promote and engage in fraud for simple reasons: for public companies, to increase the value of their shares and bonds, and for private companies, to reduce their tax liability by decreasing profits and dividend payouts. As was aptly stated by Luca Pociolo, CA or playing with numbers is not a recent development but dates back to the beginning of accounting. CA, also known as a synonym for deceitful accounting/earning management where it is known for a complicated process that is built on reasons, leading to manipulation of A/C's information disclosed and how they are truly managed. Business firms and its management are always under pressure to offer a bright picture in front of the user of the FS and the pressure sometimes causes the best or the worst come out of the manufacturers. There are a number of elements that can influence the manipulation of FS, including economic pressure, reputation, and rising competitiveness, which can lead an individual or a business to engage in CA.

Lee *et al*. (2013) reported that the term "CA" was first used in 1968 in the Mel Brooks film titled "The Producers." The City editor of London Evening, Griffiths, in 1986 in his book, used the phrase CA which actually brought the concept to general public prominence. He revealed the potential options for manipulating accounts (James, 2011). Griffiths in his book talked about the manner by which deviations were taken from the original values of the FS and showed a new and enhanced version of the same to misguide\user of FS. Thus, CA might be defined as accountants who do not adhere to the accounting rules established by government authorities. It is not illegal but unethical because it violates reporting standards' requirements. CA approaches merely change accounting standards, which are used to change the financial information for the consumption by the organization in their own way. Simply put, CA is using the "loopholes" available in accounting practices and standards to boost the figures in FS in order to provide a more profitable financial ratio for the company, leading to an increase in financial crimes. It is also observed that external auditors typically disregard the CA, which is not unlawful but is unethical.

Professional accountants' ethical responsibilities

According to Costuleanu *et al*. (2013) [18], ethics form the foundation of a civilized society. Everyone, regardless of their caste, creed, race, or gender, is seen as loyal to their employment and society. Individuals' religious, cultural, social, and moral principles form the basis of their ethics. Michael Josephson believes the following ten factors should be considered while discussing ethics. Sincerity; Integrity; Keeping one's word; Loyalty; Management of uncertain liabilities and assets.

Variation in the worth of capital

Taking responsibility for one's actions with imagination.

When examining the ethics of professional accountants, we must split them into the following categories:

- Establishment of fundamental concepts that are formulated in such a way as to be adhered to by relevant specialists.
- Defining predetermined criteria in which professionals adhere to a fixed standard in a specific technique.

In a particular circumstance, the best judgment policy is applied to determine the best alternative.

For reaching the aforementioned goals and objectives, the following factors must be considered: Knowledge, Integrity, Authenticity, Service Quality, and Excellence in one's work.

Stolowy and Breton (2000) [59] added a new layer to CA by analyzing it from three distinct perspectives: professional, academic, and creative.

Smith (1998) [56] characterized accounting firms based on their "structured and unstructured" audit procedures. His examination of large auditing firms in the United States led him to the conclusion that structured accounting firms had significantly larger "accounting income" than unstructured accounting firms. In support of his conclusion, Smith provided a list of 12 frequent manipulation strategies used to influence the FS of companies. Blake and Salas (1996) [13] demonstrated the observable presence of CA in the United Kingdom and its multifaceted implications. A study was conducted in Spain on a platform similar to that of the United Kingdom to compare the image of certified public accountants after receiving 29% of the 100 questionnaires sent in the survey from auditing firms. The results of the comparison confirmed that 30% of the auditors in both countries viewed CA as a legitimate tool for accounting, while others viewed it as a growing problem. Auditors believe that the problem affecting 28% of the population in Spain and 95% of the population in the United Kingdom may be resolved. Under CA or creative disclosure, information is shared, even if it is manipulated, as verbal or numerical disclosures. These disclosures are used to formalize the following: creating a language of presentation that is not easily understood; using positive words to portray a positive image of the firm in the eyes of users; manipulating the presentation in such a way as to provide the numbers which gave a very positive image of the firm; and using the most suitable language for the presentation.

In summary, the preceding information describes the application of the "Pollyanna Principle" by Hildebrand and Synder, 1988. Rabin (2005) [46] addressed the majority of auditors' perspective on CA and their ethical behavior. Every audit report is based on the auditor's ethical code, organizational policies, and self-evaluation standards. An auditor's assessment of FS must always be in conformity with and in contrast to the GAAP standards. In addition, he discussed the following factors to be considered by the auditor when preparing a report: rules to be followed in accordance with principles outlined by regulating bodies; identifying the relevance and reliability of the rules outlined for the presentation of FSs; and providing reports in which the analysis of the FS is in line with the management objectives.

In the event when the auditors' attitude toward CA was irrelevant to the causes, it showed a negative correlation with reports and management needs.

Cosmin (2010) [17] addressed the numerous methods employed by managers to achieve desired goals in the FSs, each one yielding a different result (Table II).

Matis *et al*. (2009) [37], using Romania as an example, demonstrated that although cash is the lifeblood of a firm and through the cash account we can easily manipulate the profit and loss statement and the balance sheet, it is extremely difficult to manipulate the cash flow statement. Thus, CA is somewhat difficult to manipulate with a cash flow statement. Consequently, managers everywhere are attempting to conform to this trend. Risk management of foreign exchange and interest rates can influence cash flow.

In accordance with IAS 7, the inflow or outflow of cash must be documented in real time. The exchange rates also provide a substantial obstacle for the same.

Related research on innovative accounting

Shah (1998) [53] investigated the elements of CA's motivation and its effect on stakeholders. Amat *et al*. (1999, 2003) [6, 7] provided the function of ethics that must be considered when preparing the FS, whereas Baralexis (2004) [9] attempted to answer "why, how, and to what extent the CA is responsible" in his research. Knezevic *et al*. (2012) [32] employed a primary survey to examine the effect and influence of CA on FS in Serbia, whereas a similar study was conducted in Romania to determine the level of managers' expertise when calculating CA. Laura and Ileana (2013) [35], Balaciu *et al*. (2014) [8], and Momani and Obeidat (2013) [40] took the auditor's job and his knowledge into account when determining the inapplicability of CA. Osazevbaru (2012) [44] and Idris *et al*. (2012) [27] studied the effect of CA on the valuation of firms and were successful in doing so. Sanusi and Izedonmi (2014) [50] concluded their study by stating that CA is a serious crime and should be dealt with strict practices. They advised the government to take strict measures to combat the problem and questioned the effectiveness of existing governing bodies. Rajput (2014) [47] examined numerous existing instances of Financial Crimes and attempted to determine how CA operates. Renu and Aggarwal (2014) [49] examined existing examples and attempted to determine how CA operates. Yadav (2014) [62] demonstrated different facets of CA and its utilization by management. After performing a survey in different cities, Patnaik *et al*. (2014) [45] discovered that practically every company uses window dressing. In his study, Bhasin (2016) [12] identified the role of accountants and the causes for their actions. Lau and Oai (2016) [34] explored the use of CA in the manipulation of FS in Malaysia, whereas Karim *et al*. (2016) [31] studied the discrepancy in CA perception between accounting and auditing. Alzoubi (2016) [4] investigated the role and effect of management's decision on the functioning of CA in their organization. Lee (2016) [36] examined the effects of the practice of writing off accounts. Mindak *et al*. (2016) [39] investigated the reasons for the use of CA. Inaam and Khamoussi (2016) [28] investigated the audit committee and the CA's quality. Shahid and Ali (2016) [55] investigated the influence of CA on FS in Pakistan. Goel (2017) [23] examined the influence of CA on the equities market and share prices. Chen *et al*. (2015) [15] researched the biotech industry and using data mining to analyze the acquired data.

Bereskin *et al*. (2015) [11] examined the effects of CA over a 12-year period. In Palestine, Alareeni and Aljuaidi (2014) [3] researched the stock market for five years. Twelve years of research by Najari *et al*. (2014) [42] on the impact of CA on the Tehran Stock Exchange revealed results of 94.4%. Hong, Huseynov, and Zhang (2014) [26] analyzed the relationship between CA and its variable using the simultaneous equation approach. Twenty years of data were analyzed by Naidu and Patel (2013) [41] to determine the impact of CA on FS. In order to demonstrate the presence of CA in the FS, Charfeddine *et al*. (2013) [14] utilized models provided by Dechow *et al*. (1995) [19], Kothari *et al*. (2005) [33], and Raman and Shahrur (2008) [48] in their study. Song *et al*. (2013) [57] investigated the use of stolen assets in California. Fok and Franses (2013) [22] analyzed the trend of CA tax evasion for businesses. Hoglund (2012) examined CA using three models: SOM, MLP, and GRNN. Jansen *et al*. (2012) [29] utilized ratio analysis to determine the effects of CA on an organization. Beattrice and Dacian (2011) [10] investigated the modification and consequences of FS. Jordan and Clark (2011) [30] investigated the effect of various window dressing techniques on FS. Dikmen and Kücükkocaoglu (2010) [21] attempted to design an algorithm for determining whether CA exists in FS.

Conclusion

Financial crimes are one of the most frequently debated topics among accounting and legal regulatory authorities around the globe. Attempts have been made to repair and improve the situation by implementing a number of countermeasures. With the expansion of the economy, creative accounting has been utilized more frequently and aggressively to perpetrate frauds and crimes at the corporate level. Consequently, efforts are being made to combat this trend. The journey of creative accounting has been quite lengthy and it has grown and evolved over time, beginning with putting ink on the books and culminating in a digital world where every action can be performed with a single click. Humans are no longer able to monitor the situation, thus it must be viewed with more clarity and efficiency. Despite the fact that several acts, provisions, rules, and laws have been enacted and are regularly updated, the government is unable to control the situation. After analyzing the work of a number of researchers and organizations, it can be concluded that the ethical issue, the professional rivalry between firms, and the large targets set by them are the real reasons why these crimes are on the rise, and that the only way to solve the problem is to implement professional ethics, which, along with the introduction of capital punishments in such cases, will stop the trend. With the expansion of the economy, measures to prevent frauds and crimes at the corporate level are being considered more actively. The journey of creative accounting has been quite lengthy and it has grown and evolved over time, beginning with putting ink on the books and culminating in a digital world where every action can be performed with a single click. Humans are no longer able to monitor the situation, thus it must be viewed with more clarity and efficiency. Despite the fact that several acts, provisions, rules, and laws have been enacted and are regularly updated, the government is unable to control the situation. After analyzing the work of a number of researchers and organizations, it can be concluded that the ethical issue, the professional rivalry between firms, and the large targets set by them are the real reasons why these crimes are on the rise, and that the only way to solve the problem is to implement professional ethics, which, along with the introduction of capital punishments in such cases, will stop the trend.

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