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Learn from the Biggest Accounting Fraud in 95 Years: A Bibliometric Analysis

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Keywords:
Fraud; Agency Theory; Auditor; Accounting Standard; Mixed Method

Abstract

This study analyses the panel data on the 96 most significant fraud cases from 1925 to 2020. The focus will be on agency theory because it affects falsified accounting as the most common type of accounting fraud and then Overstated Assets, Sales, and Revenues. Descriptive statistics with the 96 most prominent cases based on literature have been identified to understand the topic better. The data collected from 1925 to 2020 is presented and summarised in specific tables and graphs for a more immediate understanding. The mixed method was used to analyze 476 data items, both quantitative and qualitative research, with SPSS and Nvivo applications. This research found that 61 out of 96 fraud cases are from the USA, and the most auditor firm being Price Water House. The evidence that emerged is that none of the cases analyzed deals with the pandemic-the fraud that occurred years ago- to understand possible practical implications and further theoretical contributions. This research suggests that auditors should apply business ethics to be more proactive and pragmatic, considering how quickly events change and the uncertainty that arises. This study contributes to advancing knowledge of the accounting world, specifically of fraud. As far as the authors know, this is the first study that analyzes the panel data on fraud with mixed methods.

Kata kunci:
Fraud; Agency Theory; Auditor; Accounting Standard; Mixed Method

Abstrak

Studi ini menganalisis data panel pada 96 kasus fraud paling signifikan dari tahun 1925 hingga 2020. Fokusnya pada teori keagenan karena teori tersebut mempengaruhi pemalsuan akuntansi sebagai jenis penipuan akuntansi yang paling umum dan kemudian Overstated Assets, Sales, Revenues. Statistik deskriptif dengan 96 kasus paling menonjol berdasarkan literatur telah diidentifikasi untuk memahami topik dengan lebih baik. Data yang dikumpulkan dari tahun 1925 hingga 2020 disajikan dan dirangkum dalam tabel dan grafik khusus untuk pemahaman yang lebih cepat. Metode campuran/ mixed method digunakan untuk menganalisis 476 item data, baik penelitian kuantitatif maupun kualitatif dengan aplikasi SPSS dan Nvivo. Penelitian ini menemukan bahwa 61 dari 96 kasus penipuan berasal dari Amerika Serikat, dan firma auditor terbanyak adalah Price Water House. Bukti yang muncul adalah bahwa tidak satu pun kasus yang dianalisis berkaitan dengan pandemi --penipuan telah terjadi bertahun-tahun lalu- untuk memahami kemungkinan implikasi praktis dan kontribusi teoretis lebih lanjut. Penelitian ini menyarankan agar auditor menerapkan etika bisnis menjadi lebih proaktif dan pragmatis, mengingat cepatnya peristiwa berubah dan ketidakpastian yang muncul. Studi ini memberikan kontribusi untuk memajukan pengetahuan dunia akuntansi, khususnya fraud. Sejauh yang penulis ketahui, ini adalah studi pertama yang menganalisis data panel tentang fraud dengan metode campuran/ mixed method.

1. Introduction

Nowadays, individuals face personal stress and unusual behaviors, such as unethical decision-making related to pandemics. They may also intentionally present a brighter picture of current reality through financial situations (Kannan, 2014). During the current and subsequent crises, the professional judgment of accountants will receive greater scrutiny (Al-Matari et al., 2019). The other professional accountants in various roles, including internal and external audits, will also be more aware of the risks of fraud and accounting and reporting manipulation. Information can only be taken for granted with an appropriate level of challenge. For audit firms, an expectation gap often exists between what the general public expects in detecting and reporting fraud and their actual substandard responsibilities. According to SA 240, Responsibilities of the Auditor relating to fraud in the Audit of Financial Statements, "the auditor is responsible for obtaining reasonable assurance about whether the financial statements are free from material misstatement due to fraud or error (Macedo et al., 2022). The International Auditing and Assurance Standards Board (IAASB) highlighted COVID-19 staff, warning the need for auditors to raise awareness of possible fraud or error, with the importance of applying professional skepticism above mind when conducting audit procedures (Kassem, 2021). The International Code of Ethics for Professional Accountants, including the International Standards of Independence, sets out the standards of behavior expected of a professional accountant and specifically addresses pressure on accountants that may violate the Code's basic principles (objectivity, professional competence, and integrity). They also develop publications to highlight aspects of the Code relevant to accountants in the current crisis and identify potential stressors related to COVID-19. Regulators and regulatory bodies also remind companies to use their professional judgment and pay attention to accounting standards, financial reporting implications of COVID-19, and emerging risks (Subedi, 2023). For example, the Securities and Exchange Commission and the Accounting Oversight Board of Public Companies in the US released statements highlighting the risks and exposures of companies based, or with significant operations, in emerging markets where there may be a significantly greater risk that disclosure will not be complete or misleading. Forensic Focus on Financial Statement Fraud COVID-19 outlines examples of financial statement fraud risks that organizations should be aware of, such as overstatement of earnings, understatement of benefits and reserves, valuation manipulation and impairment, expense capitalization, and margin manipulation (Syamsuddin et al., 2023).

Accounting fraud in financial reporting has become the center of attention related to the number of leading companies that collapsed due to manipulating financial statements. As a result, public trust worsens in financial reports (Cohen, 2002). The financial and accounting scandals that cause the marginalization of good corporate governance are a matter of audit firms because they involve reporting the company's activities as a whole and a management problem. The activities of the accounting fraud process in financial reporting are very complex and involve various related parties. The implications of fraud lead to the question, "Can the financial statements still be trusted?". Accounting fraud in financial reporting raises doubts about the soundness of the financial reporting system and causes significant losses for investors, employees, creditors, and other stakeholders. As a result, the users get wrong information about the company's condition because there is hidden relevant information and describes the wrong financial position, resulting in the user making the wrong analysis and decision (Sihombing et al., 2023). The Big Cases of Fraud occured during 1925-2020 is presented in Table **1**.

Table 1.The Big Cases of Fraud 1925 -2020

No.	Company	Year	Firm Audit	Country	Notes
1	Fred Stern & Company	1925	Touche, Niven & Co.	USA	CPA conflicts of interest
2	Hatry Group	1929	Price, Waterhouse & Co.	UK	illegal duplicate certificates for loans
3	Royal Mail Steam Packet Company	1931	Harold John Morland	UK	Misrepresented drawdowns from reserves as trading profits.
4	Interstate Hosiery Mills	1937	Homes and Davis	USA	Fraudulent stock manipulation
5	McKesson & Robbins, Inc.	1938	Price, Waterhouse & Co.	USA	Pay commissions to a shell distribution company
6	Yale Express System	1965	Peat, Marwick, Mitchell & Co.	USA	Overstated net worth and failed to indicate net operating loss
7	Atlantic Acceptance Corporation	1965	Wagman, Fruitman & Lando	Canada	CPA conflicts of interest
8	Continental Vending Machine Corp.	1969	Lybrand, Ross Brothers	USA	CPA partners convicted and fined
9	National Student Marketing Corporation	1970	Peat, Marwick, Mitchell & Co.	USA	Overstatement of earnings
10	Four Seasons Nursing Centers	1970	Arthur Andersen	USA	Overstatement of earnings; CPA partners indicated
11	Equity Funding	1973	Wolfson Weiner; Ratoff & Lapin	USA	Created fictitious insurance policies
12	Fund of Funds	1973	Arthur Andersen	Canada	Mutual funds that inflated the value of assets
13	Lockheed Corporation	1976	Arthur Young and Co	USA	Bribe
14	Nugan Hand Bank	1980	unknown	Australia	Illegal activities, money laundering, illegal tax avoidance schemes
15	OPM Leasing Services	1981	Fox & Company	USA	Created fictitious leases
16	ZZZZ Best	1986	Ernst & Whinney	USA	Ponzi scheme
17	Northguard Acceptance Ltd.	1980	Ernst & Young	Canada	Fraud
18	ESM Government Securities	1986	Alexander Grant & Company	USA	Bribery of CPA partners.

No.	Company	Year	Firm Audit	Country	Notes
19	Bankers Trust	1988	Arthur Young & Co	USA	Hid an $80 million mispricing of derivatives contributing to profits by cutting bonuses.
20	Barlow Clowes	1988	Deloitte	UK	Gilts management service. £110 million missing
21	Crazy Eddie	1989	Penn and Horowitz	USA	Inflated sales and money laundering
22	MiniScribe	1989	Coopers & Lybrand	USA	Failing to write off bad debts and channel stuffing
23	Livent	1989	Deloitte & Touche	Canada	Fraud and Forgery
24	Polly Peck	1990	Erdal&Co	UK	False accounting
25	Bank of Credit and Commerce Int'l	1991	PricewaterhouseCoopers	UK	money laundering
26	Phar-Mor	1992	Coopers & Lybrand	USA	Mail, wire, bank, and transportation of funds obtained by fraud
27	Informix Corporation	1996	Ernst & Young	USA	Filing a false registration statement with the SEC, mail, wire & bank fraud
28	Sybase	1997	Ernst & Young	USA	Overly aggressive sales tactics
29	Cendant	1998	Ernst & Young	USA	Manufactured fake revenue
30	Cinar	1998	Ernst & Young	Canada	Misuse of corporate funds
31	Waste Management, Inc.	1999	Arthur Andersen	USA	Financial Misstatements
32	MicroStrategy	2000	PricewaterhouseCoopers	USA	Accounting fraud charges related to a restatement of the software vendor's financial results
33	Unify Corporation	2000	Deloitte & Touche	USA	Fraudulent activity by recognizing revenue in barter and contingency transactions
34	Computer Associates	2000	KPMG	USA	Massive accounting fraud
35	Lernout & Hauspie	2000	KPMG	Belgium	Fictitious transactions in Korea and improper accounting methods Elsewhere
36	Xerox	2000	KPMG	USA	Falsifying financial results
37	One.Tel	2001	Ernst & Young	Australia	Filed to disclose financial information
38	Enron	2001	Arthur Andersen	USA	Accounting loopholes and poor financial reporting
39	Swissair	2001	PricewaterhouseCoopers	Switzerland	Mismanagement and false statement
40	Adelphia	2002	Deloitte & Touche	USA	Illegitimately purchase personal luxuries
41	ALL	2002	Ernst & Young	USA	Inflated sales
42	Bristol-Myers Squibb	2002	PricewaterhouseCoopers	USA	Inflated revenues
43	CMS Energy	2002	Arthur Andersen	USA	Round trip trades
44	Duke Energy	2002	Deloitte & Touche	USA	Round trip trades
45	Vivendi Universal	2002	Arthur Andersen	France	Financial reshuffling
46	Dynegy	2002	Arthur Andersen	USA	Round trip trades
47	El Paso Corporation	2002	Deloitte & Touche	USA	Round trip trades
48	Freddie Mac	2002	PricewaterhouseCoopers	USA	Understated earnings
49	Global Crossing	2002	Arthur Andersen	USA	Network capacity swaps to inflate revenues

No.	Company	Year	Firm Audit	Country	Notes
50	Halliburton	2002	Arthur Andersen	USA	Improper booking of cost overruns
51	Homestore.com	2002	PricewaterhouseCoopers	USA	Importer booking of sales
52	ImClone Systems	2002	KPMG	USA	Executives sold their stock before the announcement
53	Kmart	2002	PricewaterhouseCoopers	USA	Misleading accounting practices
54	Merck & Co.	2002	PricewaterhouseCoopers	USA	Recorded co-payments that were not collected
55	Merrill Lynch	2002	Deloitte & Touche	USA	Conflict of interest
56	Mirant	2002	KPMG	USA	Overstated assets and liabilities
57	Nicor	2002	Arthur Andersen	USA	Overstated assets, understated liabilities
58	Peregrine Systems	2002	Arthur Andersen	USA	Overstated sales
59	Qwest Communications	2002	Arthur Andersen	USA	Inflated revenues
60	Reliant Energy	2002	Deloitte & Touche	USA	Round trip trades
61	Sunbeam	2002	Arthur Andersen	USA	Overstated sales and revenues
61	Symbol Technologies	2002	Deloitte & Touche	USA	Overstated sales and revenues
63	SteinHoff internationalies	2002	PricewaterhouseCoopers	USA	Overstated sales and revenues
64	Tyco International	2002	PricewaterhouseCoopers	USA	Improper accounting
65	WorldCom	2002	Arthur Andersen	USA	Fraudulent expense capitalization
66	Royal Ahold	2003	Deloitte & Touche	USA	Inflating promotional allowances
67	Parmalat	2003	Grant Thornton SpA	Italy	Falsified accounting documents
					Money laundering, extortion, obstruction of justice, racketeering,
68	HealthSouth Corporation	2003	Ernst & Young	USA	and briber
69	Nortel	2003	Deloitte & Touche	Canada	Distributed ill-advised corporate bonuses to the top 43 managers
70	Chiquita Brands International	2004	Ernst & Young	USA	Illegal payments
71	AIG	2004	PricewaterhouseCoopers	USA	Accounting of structured financial deals
72	Bernard L. Madoff Invest.	2008	Friehling & Horowitz	USA	Biggest Ponzi scheme in history
73	Anglo Irish Bank	2008	Ernst & Young	Ireland	Anglo-Irish Bank hidden loans controversy
74	Satyam Computer Services	2009	PricewaterhouseCoopers	India	Falsified accounts
75	Biovail	2009	unknown	Canada	False statements
76	Taylor, Bean & Whitaker	2009	PricewaterhouseCoopers	USA	Fraudulent spending
77	Monsanto	2009	Deloitte	USA	Improper accounting for incentive rebates
78	Kinross Gold	2010	KPMG	Canada	Overstated asset values
79	Lehman Brothers	2010	Ernst & Young	USA	Failure to disclose Repo 105 misclassified transactions to investors
80	Amir-Mansour Aria	2011	IAO (audit organization)	Iran	Business loans without putting any collateral and financial system Financial transactions among banks and getting loans without any

No.	Company	Year	Firm Audit	Country	Notes
81	Saderat Bank of Iran	2011	IAO (audit organization)	Iran	Collateral
82	Sino-Forest Corporation	2011	Ernst & Young	Canada	Ponzi scheme, falsifying assets
83	Olympus Corporation	2011	Ernst & Young	Japan	Kobashi using acquisitions
84	Autonomy Corporation	2012	Deloitte & Touche	USA	Subsidiary of HP
85	Penn West Exploration	2012	KPMG	Canada	Overstated profits
86	Pescanova	2013	BDO Spain	Spain	Understated debt, fraudulent invoices, falsified accounts
87	Petrobras	2014	PricewaterhouseCoopers	Brazil	Government bribes, misappropriation, money laundering
88	Tesco	2014	PricewaterhouseCoopers	UK	Revenue recognition
89	Toshiba	2015	Ernst & Young	Japan	Overstated profits
90	Valeant Pharmaceuticals	2015	PricewaterhouseCoopers	Canada	Overstated revenues
91	Alberta Motor Association	2016	unknown	Canada	Fraudulent invoices
92	Odebrecht	2016	unknown	USA	Government bribes
93	Wells Fargo	2017	KPMG	USA	False accounting
94	1Malaysia Development Berhad	2018	Ernst & Young, Deloitte, KPMG	Malaysia	Fraud, money laundering, abuse of political power, government Bribes
95	Wirecard	2020	Ernst & Young	Germany	Allegations of Fraud
96	Lucky Coffee	2020	Ernst & Young	China	Overstated revenues

Source: Researchers processed, 2023

Table 1 states that from 1925 to 2020, fraud related to "the errors ": an unintentional misstatement or omission of amounts or disclosures in the financial statements. Boynton, Johnson & Kell (1996:55) divide errors into three parts:

1. Errors in retrieving or processing accounting data that will be used in financial statements.
2. Error in accounting estimates caused by misinterpretation of facts; and
3. Errors in applying accounting principles related to amounts, classifications, objectives, and disclosures.

The objective of financial reports, according to the Trueblood Committee, is to provide information that is useful in decision-making, with seven characteristics and qualities of financial reports, namely: (a) relevant and material; (b) formality and reality; (c) confidence level; (d) free from prejudice; (e) comparable; (f) consistency; and (g) understandable.

Statement of the Problems

1. Was there a fraud change concerning the pandemic crisis?
2. What is the most common type of accounting fraud?

3. Where is the most significant fraud case?

2. Literature Review

According to agency theory, the separation between ownership and management of the company can lead to conflict. The related parties cause an agency conflict; the principal (who gives the contract or shareholder) and the agent (who receives the contract and manages the principal's funds) have conflicting interests. The agent and the principal seek to maximize their respective utility and have different desires/ motivations, which means that the agent (management) only sometimes acts according to the principal's wishes (Jensen & Meckling, 1976). The idea is that management takes benefits based on the assumption that anyone has self-interested behavior. The desire, motivation, and utility that are different between management and shareholders raise the possibility of management acting to the detriment of shareholders. One measure of company performance that is often used is profit. Earnings measured on the accrual basis are considered a better measure of company performance than operating cash flows because accruals reduce the timing and mismatching problems involved in using cash flows in the short term (Dechow, 1995).

The accrual basis allows managers to manipulate earnings to increase or decrease the accrual in the income statement. Financial Accounting Standards (SAK) provide flexibility in choosing the accounting method to prepare financial statements. The slack in this method can generate different profit values in each company. Companies that choose the straight-line depreciation method will have different reported earnings results from companies that use the year's number or declining balance method. Its Practices impact the quality of reported earnings. The company's primary goal is to increase its value of the company. The low quality of earnings will be able to make mistakes in the decision-making of users such as investors and creditors, so the company's value will decrease. The company's value will be reflected in the market price of its shares. Earnings as part of the financial statements that do not present facts about the company's economic condition can be doubtful. Earnings not showing accurate management performance information can mislead the report's users. If investors use the profit to form the company's value, then the profit cannot explain the company's actual market value (Arwinge, 2013).

The Investment opportunity shows the company's investment or growth options. The value of the growth option depends on the manager's discretionary expenditure. Management of investment opportunities requires decision-making in an uncertain environment, and consequently, managers become more unobservable (Smith & Watts, 1992). Unobservable manager actions can cause the principal not to know whether the manager's actions follow the principal's wishes. The view of agency theory is a separation between the agent and the principal, which results in potential conflicts that can affect the quality of reported earnings. The management with particular interests will prepare profit reports under their objectives, not for the principal's interests. Under these conditions, a business ethic is needed to align the differences in interests between the two parties (Tillman, 2009).

The authors refer to references related to fraud in popular databases to strengthen the literature review on fraud. The indexed articles through a popular database were used with the Boolean operators AND and OR to build the sample to be analyzed. It was decided to use the following terms (Table **2**) as a search field in the title, abstracts, and keywords: Fraud, Agency Theory, Auditor, Accounting Standard, Mixed Method, Data Panel, 1925-2020. With the addition of the Boolean operators AND and OR as the final search string.

Table 2. Search Strategy through Popular Databases

No.	Results/Database	Search Strategy
1	37.884 Documents results/ from the Scopus database	Fraud
2	147 Documents results/ from the Scopus database	Fraud AND Agency Theory
3	17 Documents results/ from the Scopus database	Fraud AND Agency Theory AND Auditor
4	2 Documents results/ from the Scopus database	Fraud AND Agency Theory AND Auditor AND Accounting Standard
5	0 Documents results/ from the Scopus database	Fraud AND Agency Theory AND Auditor AND Accounting Standard AND Mixed Method
6	8743 Documents result/ from the Emerald database	Fraud
7	4746 Documents result/ from the Emerald database	Fraud AND Agency Theory
8	2117 Documents result/ from the Emerald database	Fraud AND Agency Theory AND Auditor
9	1951 Documents result/ from the Emerald database	Fraud AND Agency Theory AND Auditor AND Accounting Standard
10	754 Documents result/ from the Emerald database	Fraud AND Agency Theory AND Auditor AND Accounting Standard AND Mixed Method
11	389 Documents result/ from the Emerald database	Fraud AND Agency Theory AND Auditor AND Accounting Standard AND Mixed Method AND data Panel
12	0 Documents result/ from the Emerald database	Fraud AND Agency Theory AND Auditor AND Accounting Standard AND Mixed Method AND data Panel AND 1925-2020

Source: Own Processing by Researchers, 2023

3. Method

This paper is a mixed method, quantitative and qualitative research that aims to analyze panel data. It is focused on descriptive in developing data and agency theory on fraud in the accounting world. A complete definition of descriptive statistics are methods related to the collection and presentation of a data set to estimate the quality of the data in the form of the type of variable, summary statistics (mean, median, mode, standard deviation), distribution, and pictorial representation (graph), without any probabilistic formula (Dobson, 2004). Besides the quantitative, this paper uses qualitative, which is divided into four stages,

1. Planning (designing review questions and planning methods),
2. Data Collection (Documentation and Observation),
3. Analysis Stage (descriptive analysis),
4. Synthesis (discussion).

By synthesizing research results through a descriptive approach and presenting them as actionable messages (policy briefs and papers), the facts are more conclusive, comprehensive and balanced to be conveyed to stakeholders (Syahrin, et al., 2019)

4. Result and Discussion

The related change of fraud and the most common type of accounting fraud will be shown in Table **3**.

Table 3. Fraud Case

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Overstated Asset/ Sales/ Revenue	20	20.8	20.8	20.8
	Roundtrip Trade	5	5.2	5.2	26.0
	Earnings	8	8.3	8.3	34.4
	Falsified Accounting	36	37.5	37.5	71.9
	Bribe	4	4.2	4.2	76.0
	Ponzi Scheme	3	3.1	3.1	79.2
	Money Laundering	5	5.2	5.2	84.4
	CPA Conflict	3	3.1	3.1	87.5
	Others	12	12.5	12.5	100.0
	Total	96	100.0	100.0	

Source: Researchers processed, 2022

As stated in Table **3**, Over 95 years, it is shown that the most fraud cases related to falsified accounting, 36 fraud cases, and then overstated asset/ sales/ revenue was the second with 20 fraud cases in 95 years. The evidence emerged that none of the cases analyzed deals with the pandemic --fraud that occurred years ago- related to the pandemic Covid 19. Nowadays, internal audit priorities should be shifted in response to COVID-19-. Fraud and reporting risks (A poll by the Institute of Internal Auditors (IIA) on the impact of COVID-19 on internal audit found that three-quarters of the internal audit function has updated their audit plans, and more than half had updated their risk assessments. 40% of respondents also reported increased fraud-related attempts.) Ensuring the operational health of an organization's breach reporting system may be more critical than ever. It is essential to follow up on suspected fraud or inappropriate practices and use them as learning opportunities to improve processes and procedures. Another central area of fraud risk is, for example, bank transfer fraud. Suppose there is a difference of views between the audit committee and management. In that case, there needs to be an intense dialogue and challenge over these differences, for example, the credibility of estimates, judgments, and forecasts concerning management's views. The audit firm should be proactive and pragmatic, considering how quickly events change and the uncertainty. All professional accountants must ensure they know how professional responsibilities will be required as companies emerge from COVID-19.

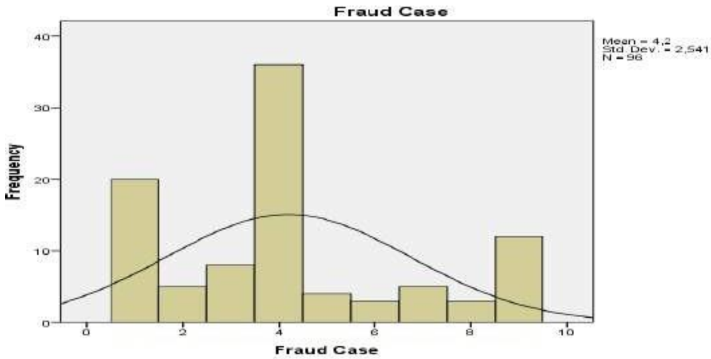

Figure 1. Fraud Case

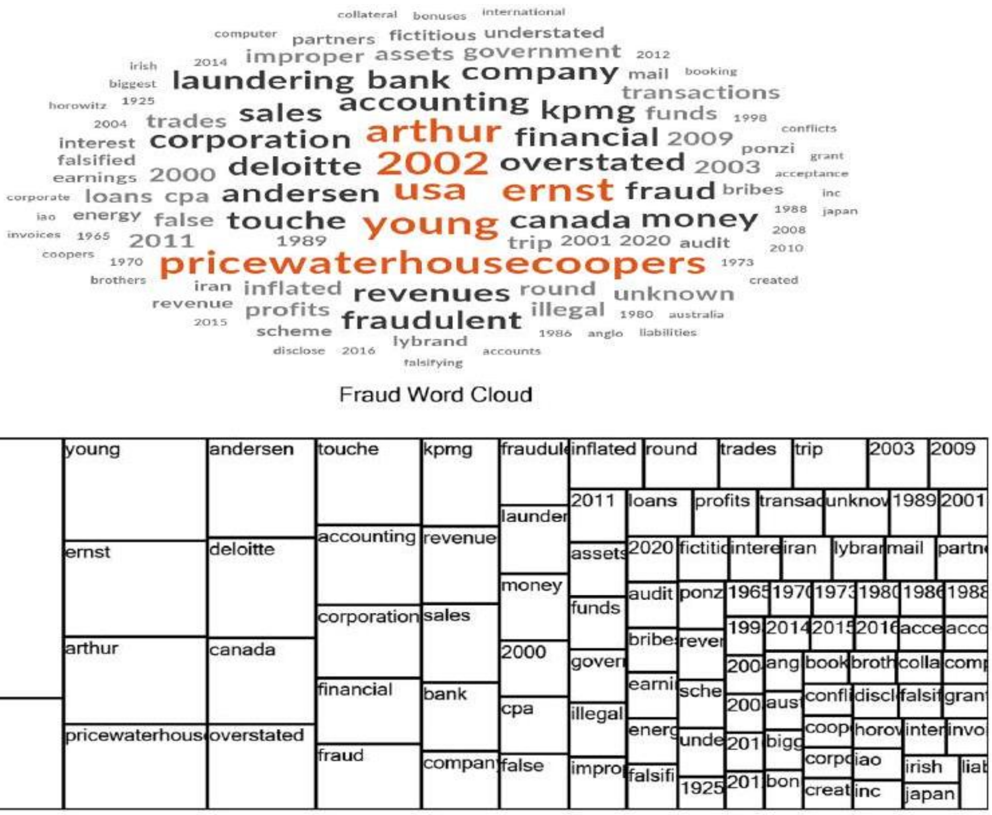

Figure 2. Word Frequency Query Result with Word Cloud

The answer to the second problem is related to the question about the most significant fraud case from the USA. It is shown in Table **4**:

Table 4. Country of Fraud

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	United States	61	63.5	64.2	64.2
	United Kingdom	6	6.3	6.3	70.5
	Canada	11	11.5	11.6	82.1
	Australia	2	2.1	2.1	84.2
	Others	15	15.6	15.8	100.0
	Total	95	99.0	100.0	
missing	System	1	1.0		
Total		96	100.0		

Source: Researchers, processed SPSS, 2022

Table **4** shows that most countries in the United States of America had 61 fraud cases and then Canada in the second with 11 fraud cases for 95 years. The USA is the most because there are creative accounting practices. In contrast, creative accounting itself is a process in which several parties use their understanding of accounting knowledge (including standards, techniques, and procedures) to manipulate financial reporting (Amat, Blake, & Dowd, 1999). Meanwhile, according to Naser & Pendlebury (1992), creative accounting is manipulating accounting figures to take advantage of the weaknesses of accounting regulations and selecting measurement and disclosure practices to change the financial statements of what should be presented. From this view, it can be interpreted that creative accounting includes the process of transforming financial accounts in financial statements by using choices of accounting methods from various choices of accounting policies through the estimation, artificial, and predictive mechanisms through engineering and manipulation, as well as the implementation of permitted implementations, through accounting regulations. The transformation process provides management with flexibility in choosing accounting policies, which is carried out by seeing a gap in accounting regulations as a weakness that can be exploited to be chosen as an alternative from various choices that can be taken as one of the policies in the financial preparation and reporting mechanism (Adams, 2005)

Creative accounting is not something new, and the pressure triggers the emergence of the creative accounting process in that a business entity feels it must be in a profitable position to attract investors, creditors, and resources. Because of this pressure, management can beautify the financial statements, called accounting cosmetics (Welch, et al. 1998). Companies intervene to obtain private gains in earnings management's external financial reporting process. The goal is to maximize compensation and avoid terminating debt agreements from bonds payable, which will hinder the payment of dividends because companies with financial problems will use accrual policies to increase profits to avoid debt contract violations. From the view of income smoothing, management tries to find smooth income so that earnings are stable with more minor variances between years so that the company's valuation will be high. The process is by selecting the allocation method and smoothing classification between operating or non-operating income. The implication for the company is to help predict the company's cash flow in the future to be better (Rispel, 2016).

At the same time, this process cannot solve user desires for a nave capital market because accounting assistance needs to provide accurate and correct data. In carrying out earnings management in the company, the purpose of management is to describe opportunistic actions to maximize its utility in dealing with compensation contracts, debt contracts, and political costs. Managers want bonuses for their performance for the company (Krishnan & Peytcheva, 2019). The resulting performance sometimes has yet to be achieved under what the company wants, and the company will monitor and evaluate the results achieved. Responding to these conditions, managers will try to display the form of financial statements with an attractive presentation showing their performance through good profits through integrated profit settings in the next few years and manage how comprehensive earnings for several years result in a significant increase. For this achievement, managers will be flexible and consider protecting themselves and the company in anticipating unexpected events to benefit the parties involved in the contract. The earning management process by management will provide opportunistic behavior for management (Singh et al., 2019).

One of the goals is recognizing the management's performance that has been achieved and has implications for the company's overall performance. This mechanism allows users to ask how to do earnings management. It looks like a vehicle for an opportunistic perspective on management behavior to carry out this mechanism. Creative accounting for management is a place to express accounting knowledge and act according to their preferences in accounting practice. The motivation is materialism as a significant driver of creative accounting, so for this achievement, management intervenes in the applicable accounting standards and seeks to find loopholes from accounting standards to be implemented in accounting practices within the company. One form of its implementation is the earning management process (Orth et al., 2022).

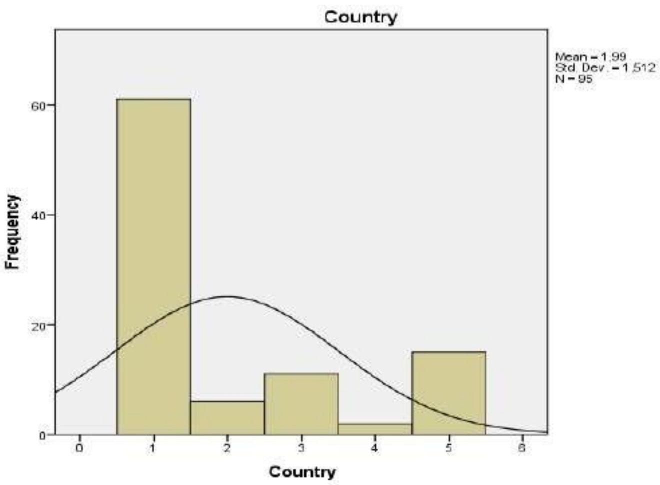

Figure 3. Country of fraud case

Merchant & Rockness (1994) found that when presenting creative accounting scenarios, accountants were more critical of the abuse of accounting rules than transaction manipulation. Meanwhile, according to Fischer & Rosenzweig (1995), there are two possible explanations for the attitude of accountants. First, accountants will give a rule-based approach to ethics because of the impact on users of financial statements. Second, accountants will abuse accounting rules as a failure in their area. Therefore, many request them to consider ethics because transaction manipulation fails within the authority of management and is not subject to a code of ethics similarity. The finding is a difference in the attitude of accountants towards creative accounting depending on the motivation of management. For the accounting profession the accounting profession is regulated by a rule known as the Code of Ethics for the accounting profession. In this Code of Ethics for the accounting profession, various issues are regulated, both issues of principle that must be attached to accountants and communicating or interacting. The Code of ethics related to the principle that the auditor must maintain, uphold, and carry out the values of truth and morality, such as responsibility (responsibilities), integrity (integrity), acting objectively (objectivity), and maintaining independence from the interests of various parties (independence), as well as being careful in carrying out the profession (due care), then if the accountant profession carries out creative accounting, it can provide information that causes users of financial statements not to receive reasonable information. It is dubious ethics because the accountant has violated his professional ethics. It is because creative use in financial statements is an illusion for the entity by masking economic reality through the misapplication of accounting principles and causing widespread impacts on unfair business activities. Creative accounting is unethical because its implementation is not based on truth values regarding methods, techniques, procedures, or goals. The relation to the probability of business ethics being applied to auditing firms in the future it would be shown in Table **5**:

Table 5. Auditor Firm

Auditor Firm	Frequency	Percentage	Valid Percent	Cumulative Percent
Price Water House	18	18.8	18.8	18.8
Ernest and Young	17	17.7	17.7	36.5
Deloitte	13	13.5	13.5	50.0
Arthur Andersen	16	16.7	16.7	66.7
KPMG	8	8.3	8.3	75.0
Others	20	20.8	20.8	95.8
unknown	4	4.2	4.2	100.0
Total	96	100.0	100.0	

Source: Researchers, processed SPSS, 2022

Table **5** shows that the most audit firm of fraud cases from Price Water House 18, Ernest and Young 17, and then Arthur Andersen 16 for 95 years. The essential and primary prevention of accounting fraud in financial reporting for audit firms can be done by improving ethics and internal control systems by understanding that an act of creative accounting is wrong, illegal, unethical, and causes. Solutions to deal with the problem of accounting fraud in financial reporting would be done in the following ways: returning an alternative accounting policy to accounting standards, reviewing accounting policies, certification of the audit firm, eliminating justifications for using extraordinary transactions, encouraging the creation of ethical standards for an audit firm, encourage the creation of governance codes in the company's internal control system. The implication is that if the methods of dealing with accounting fraud in financial reporting are implemented, distortions in the financial statements will be realized so that material misstatements can be avoided (Flayyih, 2023).

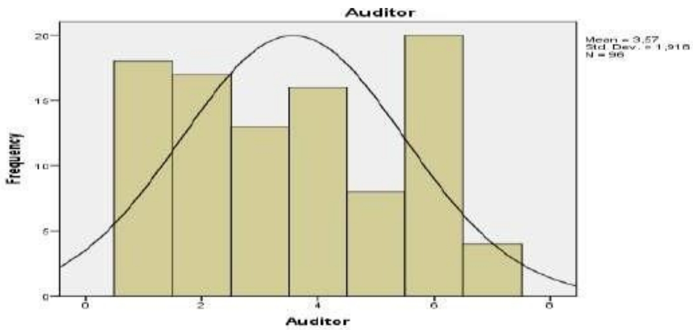

Figure 4. Audit firm

Theoretical Findings

This study supports the theory of Jensen & Meckling (1976) that the separation between ownership and management of a company can be led to conflict. The related parties cause an agency conflict; the principal (who gives the contract or shareholder) and the agent (who receives the contract and manages the principal's funds) have conflicting interests. Suppose the agent and principal seek to maximize utility and have different desires and motivations. In that case, there is reason to believe that the agent (management) does not always act according to the principal's wishes, so accounting fraud tends to be carried out.

Empirical Findings

Creative accounting activity destroys the economic order and the ethical and moral order. Therefore, it is unsurprising that companies with sound internal control systems can create a clean business life to avoid accounting fraud. In addition, the public will not question and doubt the integrity and credibility of the audit firm, which are at the forefront in detecting creative accounting and accounting fraud because the internal control system has been prepared to become an adequate regulation to create a healthy and ethical business life carried out correctly. *Accounting fraud in financial reporting arises because the* company must be profitable to attract stakeholders. As a result, management makes an action that leads to opportunistic behavior; accounting cosmetics through accounting policies, earning management, income smoothing, and financial statement manipulation. *Accounting fraud in financial reporting is* said to be illegal if it turns out to have violated applicable procedures or legislation through a "loophole" in the regulation itself. The results of this study encourage the creation of ethical standards. These ethical standards contain the mechanism for the behavior of management accountants in preparing financial statements. The content concerns ethical behavior regarding things allowed in financial statements and prohibited in engineering financial statements. Including moral sanctions if management accountants commit violations in the engineering of financial statements. Why is this necessary? Accounting fraud is an act of violation because the perpetrators act unethically and take actions that can mislead users of financial statements by presenting inaccurate information, and sometimes even causes illegal actions, such as the presentation of financial statements that are distorted or not, according to actual. The results of this study positively encourage an increase in morale for management accountants to behave ethically in preparing financial statements. The implication for management accountants is to do good and be honest in fulfilling the terms and conditions in the rules to create trust as the essential capital that will generate large profits in the future. Negatively, the moral sanctions will cause the public to distrust the company. As a result, the professional community will refrain from professional relations with the company, and the possibility of the product being shunned by the public because of the high cost so that its value is charged to the community.

5. Conclusion

Overall, the results of this study prove and support the statement that the tendency of accounting fraud can be reduced by improving and enhancing the business ethic to eliminate creative accounting. The results of this study encourage the creation of ethical standards. These ethical standards contain the mechanism for the behavior of audit firms in preparing financial statements. The content concerns ethical behavior regarding things allowed in financial statements and prohibited in engineering financial statements. A comprehensive effort is needed, not partial. Implementing an internal control system and ethical business behavior should eliminate creative accounting and accounting fraud. Reducing creative accounting behavior and accounting fraud should be done if one of the main elements, the person in charge of financial statements, applies ethical business behavior. For further development, it is better if the management and audit firm, both in the form of supervision and control in government institutions, is carried out continuously and needs to be continuously assessed for its effectiveness with the solutions listed below:

1. Strict SOP Implementation Implementing a strict SOP or Standard Operational Procedure is the primary choice to prevent fraud in a company. The SOP ensures that the processes carried out by the company run according to plan. Ignoring SOPs, often only considered as a complement to company administration, will result in a company becoming out of control. Not only that, but It can also trigger a gap for fraud or fraud to occur. To overcome this fraud, companies need to tighten SOPs for employees. The reward and punishment system can be implemented due to the discipline implemented. With strict monitoring of SOPs, fraud can be detected as early as possible. Thus, preventive action can be taken immediately for the
2. Audits Regularly. A business is very likely to be fraudulent in financial reporting. Therefore, it is essential to make proper use of internal audits. Internal auditors can be explicitly done for some employees who want to increase their competence more broadly. Implementing this training relates to actions to prevent fraud so that it can be adequately handled. On the other hand, employees can work more carefully and honestly.
3. Improve Company Culture Lack of understanding of employees in understanding the vision and mission of a company is one of the factors causing fraud. The specific cultural influences from outside the office are one of the consequences. The transfer of vision and mission from superiors must occur to overcome this. So employees can get the intended value together.
4. Use of Accountable Software. The use of software has been common to do by the company. The software can also solve problems from company bookkeeping to

fraudulent financial statements. It happens due to software that can work following the system. Using the right software can help companies build accountability efficiently. In addition, using accountable software can also increase work efficiency and facilitate work supervision.

5. It used a Good Internal Control System. In addition to having an internal control system, the company must also ensure reasonable standard procedures. It is to make it easier to regulate employee behavior so that they behave under the company's vision and mission. Various general standards have been used. Among others are segregation of duties, enforcement of the authorization system, checking, etc. If this is successfully done, fraudulent actions can be automatically anticipated.

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