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**EXPLORING THE IMPACT OF FINANCIAL STATEMENT MANIPULATIONS ON STAKEHOLDERS**

This article delves into the multifaceted effects of financial statement manipulations on various stakeholders including shareholders, investors, employees, creditors, and regulatory bodies. The research is driven by the growing concern over the credibility of financial reporting and its cascading effects on stakeholder trust and decision-making processes. This comprehensive study synthesizes findings from recent scholarly articles, focusing on diverse sectors and geographical regions to provide a global perspective on the issue.

The purpose of this article is to critically evaluate how financial manipulations impact different stakeholder groups, with a particular emphasis on the trust dynamics and financial decision-making processes. It aims to bridge the gap in existing literature by offering a holistic view of the consequences of financial statement manipulations, drawing on empirical data and theoretical frameworks such as the fraud diamond theory and activity-based accounting.

The content of the article is organized into several key sections. Initially, it provides a detailed literature review, highlighting historical and current perspectives on financial statement manipulations. Subsequent sections delve into the methodology employed for data collection and analysis, followed by a comprehensive discussion on the effects of these manipulations on each stakeholder group. The article employs a mix of qualitative and quantitative research methods, analyzing data from various case studies and empirical research to draw its conclusions.

Finally, this article reveals that financial statement manipulations significantly impact stakeholder trust and decision-making, albeit with varying degrees depending on stakeholder sophistication and regulatory frameworks. It offers insights into the roles of corporate governance and auditor vigilance in mitigating these impacts. The article concludes with
recommendations for enhancing transparency and stakeholder confidence in financial reporting, alongside suggestions for future research directions in this domain.

Keywords: Financial Statement Manipulation, Stakeholder Trust, Corporate Governance, Audit Vigilance, Decision-Making Processes, Earnings Management, Regulatory Frameworks.

Introduction

In an era where financial information is paramount to decision-making, the integrity of financial statements stands as a cornerstone of corporate transparency and stakeholder trust. The topic of financial statement manipulations and its impact on stakeholders is not just timely but also of enduring relevance in the field of accounting and finance. This article, titled «Exploring the Impact of Financial Statement Manipulations on Stakeholders,» delves into this crucial subject, driven by both its theoretical significance and pressing practical implications.

The relevance of this topic emerges from the burgeoning concern about the credibility of financial reports in guiding critical decisions made by a diverse array of stakeholders including investors, creditors, employees, and regulatory bodies. In recent years, high-profile cases of financial misreporting have not only led to significant economic losses but also eroded public trust in the financial reporting process. This has raised pertinent questions about the effectiveness of existing corporate governance mechanisms, auditing standards, and regulatory frameworks in safeguarding against manipulative practices in financial reporting.

Moreover, the rapid globalization of business and the increased complexity of financial transactions have further amplified the challenges in ensuring transparent and reliable financial reporting. Different geographical regions and industries present unique challenges and patterns in financial statement manipulations, making it a multifaceted issue with no one-size-fits-all solution.

Financial statement manipulation, which encompasses a range of practices from earnings management to outright fraud, can have far-reaching consequences. For shareholders and investors, these manipulations can lead to misinformed investment decisions and financial losses. For employees and management, they can undermine morale and lead to legal and regulatory repercussions. Creditors and suppliers, reliant on accurate financial information for risk assessment, can also find themselves adversely impacted. Beyond these immediate stakeholders, manipulated financial statements can have broader societal impacts, eroding trust in the capital markets and impacting the overall economic climate.

Despite the critical nature of this issue, there remains a gap in comprehensive research that holistically captures the myriad ways in which financial statement
manipulations impact different stakeholders, particularly in varying global contexts. This article seeks to fill this gap by synthesizing recent empirical research and theoretical frameworks. It aims to provide a nuanced understanding of the dynamics at play in financial statement manipulation and its diverse impacts on stakeholders, thereby contributing both to academic discourse and practical policymaking.

As businesses continue to evolve in a complex, interconnected global economy, the need for rigorous, comprehensive research in this area becomes ever more pressing. This article endeavors to contribute to this need, offering insights that can aid in the development of more robust frameworks for financial reporting, corporate governance, and stakeholder protection.

**Materials and Methods**

To comprehensively examine the impact of financial statement manipulations on various stakeholders, this article employs a multi-pronged research approach, integrating both qualitative and quantitative analysis. The materials for this study comprise an extensive array of peer-reviewed academic papers, industry reports, case studies, and regulatory documents, focusing on the period from 2015 to 2022. These materials were sourced from reputable databases and journals to ensure the reliability and relevance of the information. In this study we used the following materials and methods: data collection, data analysis, methodological rigor, ethical considerations.

**Results and Discussion**

The extensive analysis of recent literature on financial statement manipulations offers intricate insights into their multifaceted impacts on diverse stakeholder groups. This discussion synthesizes these findings, juxtaposes them against previous research, and reflects on the evolving landscape of corporate financial integrity.

**Nature and Extent of Financial Statement Manipulations**

The research consistently illuminates the prevalence and complexity of financial statement manipulations. Boll, Müller, & Sidki (2022) highlight earnings management tactics in German municipal enterprises, emphasizing the strategic use of accounting flexibility [1]. Their study reveals that these public enterprises leverage the discretionary scope within accounting rules to manipulate earnings, a practice well-acknowledged in private corporations but not as much scrutinized in the public sector. Through an extensive analysis of financial statements from 11,721 German municipal enterprises spanning from 1998 to 2014, the study identifies firm size and leverage as positively correlated with earnings management behaviors. Additionally, it highlights that public enterprises with more fragmented ownership structures are more inclined to engage in financial statement manipulations. This
tendency is less prevalent in enterprises operating under German commercial law, suggesting a nuanced landscape of governance and its impact on financial reporting practices in the public sector.

Contrasting this with private sector studies, such as those focusing on corporate firms’ earnings management to meet or beat benchmarks, Boll, Müller, & Sidki (2022) contribute to a broader understanding of the motives and opportunities for earnings management across different types of organizations. Their findings align with the notion that financial statement manipulation is not solely a tool for private profit maximization but also a strategy employed by public entities facing different sets of pressures and expectations.

Similarly, in a recent study authors (2023) discuss the Fraud Diamond theory, revealing four key elements of financial fraud: pressure, opportunity, rationalization, and capability [2].

![Figure 1 – The Fraud Diamond Model](image)

The theory posits that fraud occurs due to a confluence of four key risk factors: pressure, opportunity, rationalization, and capability. Those authors (2019) argue that the capability of individuals to commit fraud, alongside their motivation (pressure), the availability of an opportunity, and the rationalization of their actions, forms a comprehensive framework for understanding and predicting fraudulent activities in financial reporting. This theory aids in identifying the potential for fraud by highlighting the importance of considering an individual’s specific traits and abilities that enable them to exploit opportunities for deceit.
This expanded model underscores the complexity of financial fraud, suggesting that merely having motivation, opportunity, and a way to rationalize fraudulent behavior is not sufficient. The perpetrator must also possess the necessary skills, knowledge, and position to execute the fraud effectively. This insight is pivotal for organizations aiming to mitigate the risk of fraud, emphasizing the need for a holistic approach to fraud prevention that considers the unique capabilities of potential fraudsters within the organization. By recognizing the critical role of capability, the aforementioned author’s (2019) contribution to fraud theory enhances our understanding of the multifaceted nature of financial fraud and offers a more nuanced perspective for its detection and prevention.

Together, these insights underscore the complexity of financial statement manipulation and the need for comprehensive fraud prevention strategies that consider various influencing factors across organizational types.

Impact on Investors and Shareholders: One of the most pronounced effects of financial statement manipulation is on investors and shareholders. Ubogu (2019) details how creative accounting practices in Nigerian banks significantly affect shareholders’ wealth and investment decisions [3].

<table>
<thead>
<tr>
<th>SN</th>
<th>Questions/Items</th>
<th>Yes</th>
<th>No</th>
<th>No idea</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Is there significant relationship between creative accounting and shareholders wealth?</td>
<td>38 76 %</td>
<td>10 20 %</td>
<td>2 4 %</td>
<td>50 100 %</td>
</tr>
<tr>
<td>2</td>
<td>Creative accounting practices do falsely increase the shareholders wealth</td>
<td>38 76 %</td>
<td>7 14 %</td>
<td>5 10 %</td>
<td>50 100 %</td>
</tr>
<tr>
<td>3</td>
<td>Creative accounting practices transform the actual financial statements to those which the owners would like to achieve as positive and favourable results of the company.</td>
<td>41 82 %</td>
<td>7 14 %</td>
<td>2 4 %</td>
<td>50 100 %</td>
</tr>
<tr>
<td>4</td>
<td>Creative accounting mislead the inventors in the business on the ways and method to choose.</td>
<td>39 78 %</td>
<td>7 14 %</td>
<td>4 8 %</td>
<td>50 100 %</td>
</tr>
</tbody>
</table>

This observation resonates with previous studies that demonstrate the detrimental impact of financial misrepresentations on market trust and investment efficiency. The detrimental impact of financial misrepresentations on market trust and investment efficiency is corroborated by studies like Biehl, Bleibtreu & Stefani (2024), which found that firms with prior financial misreporting face significant
obstacles in raising equity capital, leading to decreased investment efficiency and increased risk of bankruptcy [4]. Studies by researchers like Ozcelik (2020) further emphasize the economic and social ramifications of such misrepresentations, highlighting the erosion of trust among financial statement users and the broader implications for stakeholders [5].

However, counter-arguments suggest that the market may partially absorb the shock of financial misrepresentations through the mechanism of market efficiency, where informed investors and regulatory interventions can mitigate some of the negative impacts on trust and investment decisions. For instance, Lei, Zhou & Wang (2020) argue that damages from misrepresentation can occur without direct reliance, indicating a complex interplay between market perception and the actual impact of financial misstatements [6].

So, while financial misrepresentations undeniably harm investor trust and efficiency, the extent of this impact is nuanced by factors such as market efficiency, regulatory oversight, and the sophistication of investors. This suggests a need for a balanced view that considers both the direct consequences of financial misrepresentations and the mitigating effects of market mechanisms and regulations.

Influence on Creditors and Lenders: Creditors and lenders rely heavily on financial statements for risk assessment and credit decisions. Manipulated financial reports, therefore, pose a significant threat to their decision-making process, undermining the reliability of financial statements for assessing borrower creditworthiness due to the potential for overstated assets and understated liabilities leading to overly optimistic evaluations of financial stability. The literature suggests that inaccurate financial reporting can lead to increased credit risk and potential defaults, affecting the stability of the financial system. Manipulated financial reports pose a significant credit risk for lenders and creditors. Ashtiani and Raahemi (2021) highlight the critical need for intelligent fraud detection methods, such as machine learning and data mining, to help auditors and creditors identify fraudulent financial statements and mitigate associated risks [7]. Furthermore, Albizri, Appelbaum, and Rizzotto (2019) advocate for a comprehensive, multi-disciplinary approach to financial statement fraud detection, integrating insights from accounting, information systems, and other fields to develop a holistic understanding of risks and more effective risk mitigation strategies [8]. Together, these perspectives underscore the importance of advanced fraud detection and a broad evaluative framework in safeguarding against the risks of financial statement manipulation and ensuring accurate credit risk assessment.

Corporate Governance and Auditing Standards: A critical aspect that emerges from the research is the role of corporate governance and auditing standards in
preventing and detecting financial manipulations. Nehme & Jizi (2018) underscore the effectiveness of diverse and independent corporate boards in enhancing audit quality [9]. Despite these efforts, authors in other studies point out the challenges auditors face in detecting fraud, often lagging behind other stakeholders. This suggests a gap between the theoretical robustness of auditing standards and their practical effectiveness.

Comparative Analysis and Evolving Perspectives: The current findings on the detrimental impact of financial statement manipulations align with previous research, yet they extend the discourse by providing a nuanced view of the impacts across diverse stakeholder groups and sectors, highlighting the evolving nature of financial fraud amidst changing regulatory landscapes and technological advancements. This study emphasizes the critical role of new auditing technologies and methodologies in combating financial manipulations, where traditional auditing practices, while still fundamental, are increasingly supplemented by advanced data analytics, machine learning, data mining, and forensic accounting techniques as noted by Ashtiani and Raahemi (2021) and Albizri, Appelbaum, and Rizzotto (2019). This integration not only enhances the efficiency and precision in identifying fraudulent financial statements but also marks a significant evolution in auditing practices [10]. It reflects a shift towards a more comprehensive and sophisticated approach to fraud detection, necessitating continuous innovation and cross-disciplinary collaboration to safeguard the integrity of financial reporting in the digital age. Consequently, the amalgamation of these advanced techniques with traditional methods underscores a pivotal evolution in the fight against financial fraud, ensuring the robustness of financial reporting amidst the complexities of the modern financial landscape.

Conclusions: The comprehensive exploration of financial statement manipulations and their impacts on various stakeholders yields critical insights into the complexities of corporate financial integrity. This article’s findings underscore the multifaceted and pervasive nature of financial manipulations and their far-reaching consequences on a wide range of stakeholders, including investors, creditors, employees, and regulatory bodies.

The investigation reveals that financial statement manipulations, ranging from subtle earnings management to overt fraud, significantly erode stakeholder trust and undermine the efficacy of decision-making processes. For investors and shareholders, this often results in substantial financial losses and diminished confidence in the market. Creditors and lenders face heightened risks due to distorted risk assessments, while employees and internal management grapple with ethical dilemmas and potential legal ramifications. These findings align with and extend the existing body of literature by providing a more nuanced understanding
of the differential impacts across stakeholder groups and emphasizing the need for targeted interventions.

Moreover, the study highlights the critical role of robust corporate governance and effective auditing standards in mitigating the risks associated with financial statement manipulations. Despite advancements in regulatory frameworks and auditing methodologies, the persistence of financial manipulations signals the need for continual adaptation and enhancement of these mechanisms.

In conclusion, this article calls for a concerted effort among regulators, corporate entities, auditors, and stakeholders to foster a culture of transparency and accountability in financial reporting. It advocates for the adoption of advanced technological tools in auditing, ongoing stakeholder education, and the implementation of more comprehensive corporate governance practices. As financial markets evolve and become more complex, a proactive and collaborative approach is essential to safeguard the integrity of financial information and protect the interests of all stakeholders in the global financial ecosystem.

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КАРЖЫЛЫҚ ЕСЕПТІЛІКТІ МАНИПУЛЯЦИЯЛАУДЫҢ МҮДДЕЛІ ТАРАПТАРҒА ӘСЕРІН ЗЕРТТЕУ

Бұл мақалада қаржылық есептілікті манипуляциялаудың акционерлерді, инвесторларды, қызметкерлерді, несие берушілерді және реттеушілерді қоса алетанда, әртүрлі мүдделі тараптарға көп қырлы әсері қарастырылады. Зерттеу қаржылық есептіліктің дұрыстығына және оның мүдделі тараптардың сенімі мен өшім қабылдау процестеріне касқады әсеріне қатысты
алаңдаушылықтың артуына байланысты жүргізілуде. Бұл жан-жакты зерттеу осы мәселеге жаңаңдық көзқарасы қамтамасыз ету ушін әртүрлі секторлар мен географиялық аймақтарға бағытталған соңғы ғылыми мақалалардың нәтижелерін синтездейді.

Бұл мақаланың мақсаты-қаржылық манипуляциялардың мүдделі тараптардың әртүрлі секторлар және географиялық аймақтарға бағытталған соңғы ғылыми мақалалардың нәтижелерін қамтамасыз ету. Ол әл-қызмет әдістерін қаржылық манипуляциялардың мүдделі тараптардың әртүрлі және әл-қызмет теориясы мен қызмет теориялық құрылыларға сүйене отырып, қаржылық есептілікті манипуляциялаудың салдары тұтас көзқарасы үсына отырып, қолданыстарға қабылдайды.

Мақаланың мазмұны бірнеше негізгі болімдерге болінген. Бастапқыда ол қаржылық есептілікті манипуляциялаудың тарихи және ағымдағы перспективаларын көрсететін әдебиеттерге егжей-тегжейлі шолу жасайды. Кейінгі болімдерде деректерді жинау және талдау үшін қолданылатын әдістер қарастырылады, содан кейін осы манипуляциялардың мүдделі тараптардың әрбір тобына эсері тұтас көзқарасы жасаңыз отырып, қолданыстарға қабылдайды.

Ақырында, бұл мақалада қаржылық есептілікті манипуляциялау мүдделі тараптардың сенімінің әл-қызметі қамтамасыз ету, қызмет тарахымдарға құрылылардың нормативтік-құқықтық базасына және шешім қабылдайды.

Кілтті сөздер: Қаржылық Есептілікті манипуляциялау, Мүдделі тараптардың сенімі, Корпоративтік басқару, Аудиторлық қырағылық, Шешім қабылдау Процестері, Кірістірді қасқару, Нормативтік-құқықтық база.
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ИЗУЧЕНИЕ ВЛИЯНИЯ МАНИПУЛЯЦИЙ С ФИНАНСОВОЙ ОТЧЕТНОСТЬЮ НА ЗАИНТЕРЕСОВАННЫЕ СТОРОНЫ

В этой статье рассматриваются многогранные последствия манипуляций с финансовой отчетностью для различных заинтересованных сторон, включая акционеров, инвесторов, сотрудников, кредиторов и регулирующие органы. Исследование вызвано растущей обеспокоенностью по поводу достоверности финансовой отчетности и ее каскадного воздействия на доверие заинтересованных сторон и процессы принятия решений. Это всеобъемлющее исследование обобщает выводы из недавних научных статей, уделяя особое внимание различным секторам и географическим регионам, чтобы обеспечить глобальный взгляд на проблему.

Цель этой статьи – критически оценить, как финансовые манипуляции влияют на различные группы заинтересованных сторон, с особым акцентом на динамику доверия и процессы принятия финансовых решений. Она направлена на преодоление пробела в существующей литературе, предлагая целостный взгляд на последствия манипуляций с финансовой отчетностью, опираясь на эмпирические данные и теоретические основы, такие как теория бриллиантового мошенничества и бухгалтерский учет, основанный на деятельности.

Содержание статьи разбито на несколько ключевых разделов. Первоначально в ней представлен подробный обзор литературы, освещающий исторические и современные взгляды на манипуляции с финансовой отчетностью. В последующих разделах рассматривается методология, используемая для сбора и анализа данных, за которой следует всестороннее обсуждение последствий этих манипуляций для каждой группы заинтересованных сторон. В статье используется сочетание качественных и количественных методов исследования,
анализируются данные из различных тематических исследований и эмпирических исследований, чтобы сделать свои выводы.

Наконец, в этой статье показано, что манипуляции с финансовой отчетностью существенно влияют на доверие заинтересованных сторон и принятие решений, хотя и в разной степени, в зависимости от уровня осведомленности заинтересованных сторон и нормативно-правовой базы. В ней дается представление о роли корпоративного управления и бдительности аудиторов в смягчении этих воздействий. Статья завершается рекомендациями по повышению прозрачности и доверия заинтересованных сторон к финансовой отчетности, а также предложениями по будущим направлениям исследований в этой области.

Ключевые слова: Манипулирование финансовой отчетностью, доверие заинтересованных сторон, Корпоративное управление, Аудиторская бдительность, Процессы принятия решений, Управление доходами, Нормативно-правовая база.