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THE RESULTS OF MANIPULATING THE COMPANY'S FINANCIAL STATEMENTS

In this article, the results of manipulation of financial reporting indicators have been considered, and serious consequences for businesses and investors have been revealed when financial indicators become the object of manipulation that contradicts legislation and accounting standards. The motivations and justifications cited for manipulation by companies have been identified as a separate aspect of business management. The causes, mechanisms, and consequences of the manipulation of financial reporting indicators have been analyzed, and the importance of preventing such practices through auditing and other accounting methods has been shown. The methodology of the study has been determined as based on the theoretical foundations of the conceptual apparatus on the falsification of financial statements, a literature review, and the collection of data from official sources of audit firms. The relevance of the article has been shown through the opportunity it provides for investors and managers to timely assess the literacy of employees involved in financial statement preparation and to apply expanded methods for detecting manipulations. The results of the study emphasize the critical importance of transparency and reliability in financial reporting.

Keywords: manipulation, financial statement, distortion, misstatement, fraud, investor, audit, stakeholders, IFRS

Кілт сөздер: манипуляция, қаржылық есептілік, бұрмалау, алаяқтық, инвестор, аудит, мүдделі тараптар, ҚЕХС

Ключевые слова: манипулирование, финансовая отчетность, искажение, мошенничество, инвестор, аудит, заинтересованные стороны, МСФО

JEL classification: M41, M42, P45

Introduction. Companies are required to prepare financial statements and disclose information to inform the public about their profitability and growth potential. However, some unscrupulous businesses may falsify their financial statements to hide losses or other violations. Corporate fraud can sometimes be preceded by greed and short-sightedness.

Accelerating expenses before a merger, deferring expenses, increasing income, and using off-balance sheet assets are some examples of accounting manipulation [1].

Preventing manipulation of financial statements is key to ensuring the integrity and reliability of information provided to investors and stakeholders in the form of financial statements. This contributes to the stability of financial markets and business confidence, which is especially important in the context of the efficient functioning of the economy. The purpose of the study is to reveal the relevance of high-quality preparation of financial statements of the company, by identifying presuppositions and negative consequences from the deliberate manipulation of financial reporting indicators. Considering this, the study's goal is to identify the strategies that may be used to stop financial report fraud and to emphasize the importance of auditing through the analysis of feedback from organizations and investors. To date, the prospects of companies' work as an economic entity depend on the literacy of financial statements. The results of manipulating financial indicators can have profound and far-reaching consequences for various parties associated with the company and the market.

This problem is relevant for several reasons:

1. Trust of investors and stakeholders: Manipulation creates a false perception about the financial health of the company, undermining the trust of investors, shareholders, and other stakeholders. This can lead to a loss of capitalization, deterioration of creditworthiness and a negative impact on reputation.

2. Inefficiency of the market due to incorrect decisions: Distorted data may lead to a wrong decision on the part of investors. In turn, inefficient solutions can lead to inefficiency of the economic market and even financial crises.

3. Problems with the reliability of risk assessment: Manipulating reporting indicators may not accurately reflect the true assessment of financial risks. This makes it difficult to effectively manage a business and make informed strategic decisions.

4. Consequences of violations of regulations: Detection of manipulation can lead to fines imposed on the company by regulatory authorities, legal consequences and even the closure of the company.

5. Systemic risk: Manipulation of financial statements leads to suspicion of systemic risks affecting overall financial stability. The latter, in turn, affects market confidence and causes concern among the firm's investors [2].

Thus, the importance of manipulating financial indicators lies in the potentially significant impact on the financial stability of companies in the general market.

Investors should also be aware that there's a good chance the independent auditors who provided the audited financial data have a major conflict of interest that is skewing the company's genuine financial picture [3].

Auditors play an important role in checking financial statements. For instance, the risk of the auditor providing an incorrect opinion on the financial statements due to data manipulation is addressed in ISA 240 "Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements". Both the individuals accountable for corporate governance and the management of the audited entity are primarily responsible for preventing and identifying fraudulent activities. The probability that the auditor failing to uncover a significant misstatement resulting from management's unjust actions is greater compared to that of an employee's unjust actions. This is because in numerous instances, management possesses the capability to manipulate accounting data, present false financial information, or bypass control procedures intended to deter similar unfair actions by other employees, either directly or indirectly [4].

To conduct this study, a review of the literature was conducted, which concerns the relevance of the reliability of the report data and the problems associated with the deliberate manipulation of financial statements of companies operating in the market.

The applied methods allow to create a comprehensive overview of the problem of manipulating financial indicators and suggest more effective strategies for solving it.

Literature review. In the context of a literary review concerning the article on the outcomes of manipulating financial reporting indicators, we reference several academic papers and practical materials that were instrumental in shaping our research.

Recent research has significantly expanded the understanding of financial statement manipulation in the modern business environment. Eilifsen, Knechel, and Wallage examined the evolving role of auditors in fraud detection, emphasizing the challenges and necessary innovations in audit practices. Christensen, Hail, and Leuz (2021) reviewed the impact of mandatory IFRS adoption on improving accounting quality across countries, finding mixed results depending on enforcement mechanisms. Amiram, Bozanic, and Cox provided a multidisciplinary perspective on financial reporting fraud, linking it to broader misconduct trends in corporate governance. Furthermore, Aobdia demonstrated that higher audit quality significantly increases the likelihood of early fraud detection. Incorporating these contemporary studies enhances the article's academic depth and aligns it with the current research landscape in the fields of accounting, auditing, and corporate governance.

All the above-mentioned sources of literature consider the issues of manipulation of financial reporting indicators from different sides. The most important thing was highlighted, which environment is necessary for honest work, which subjects are interested in a high-quality report and what influences the formation of financial statements. Also, only a small part of the tools and ways to minimize adverse manipulation of financial statements were mentioned above. The literature review incorporates publications from both international and local authors to offer a thorough examination of the issue of manipulation in financial statements. The collected scientific materials form the foundation of our research, enhancing comprehension of the phenomenon and supplying a framework for further analysis of manipulation results.

Despite the wealth of information presented in the works of these authors, certain aspects of the study may necessitate further consideration:

1. Regional variation: While many studies focus on the North American or

European markets, incorporating data from Kazakhstan and other countries could offer a more comprehensive global perspective on the issue of manipulation. Even within the comprehensive work of a local author featured in our table, the application of the experiences of Russian companies is examined.

2. Kazakhstan market specifics: A thorough analysis of the peculiarities of the Kazakh market and their impact on manipulation possibilities could yield valuable practical recommendations for companies and regulatory authorities.

3. The impact of technological innovations: The examination of modern technologies and their influence on the potential for manipulating financial statements, such as through the utilization of blockchain or artificial intelligence, presents additional opportunities for analysis.

4. Cross-country comparative analysis of reporting standards: Assessing reporting standards across different countries and evaluating their impact on the potential for manipulation will make a valuable contribution within the global market context [5].

5. Exploring ethical considerations: We mentioned corporate culture, but it is worth taking a deeper look at the ethical side of business. Delving into the ethical dimensions of financial statement manipulation can enhance the understanding of the reasons why companies may choose to engage in such practices [6].

6. Company reputation restoration analysis: Analysis of strategies for companies to rebuild their reputation and regain investor confidence following the discovery of manipulation is a crucial element of a comprehensive approach.

Including these considerations can enhance the comprehension of financial statement manipulation issues and broaden the relevance of the findings to different contexts, including the Kazakhstan market.

The main part. As an illustration of the urgency of addressing fraudulent practices, we present a graph comparing Global and Kazakhstani indicators, demonstrating the adverse effects of economic crimes in 2020 (Figure 1).

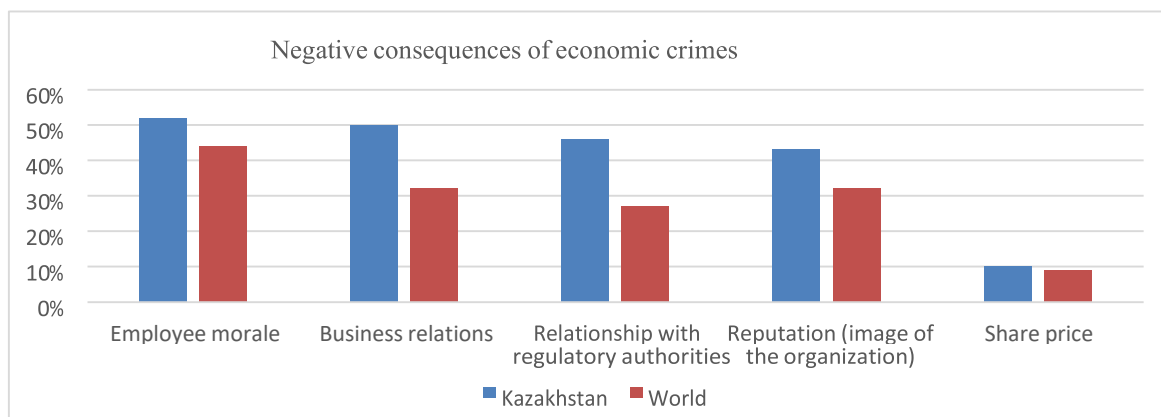


Figure – 1. **Negative consequences of economic crimes**

**compiled by the authors based on the source [7]*

According to the graph above, it is important to consider indirect factors of damage from fraudulent actions, such as a significant decrease in employee morale (exceeding 50%), business relationship termination (mid-range), and deterioration of relations with regulatory authorities (46%). Any form of economic misconduct can have a detrimental impact on a company by presenting false information and engaging in deceptive actions. Such behavior can also have serious repercussions when inaccurate data is included in financial statements.

In the continuation of the first schedule, we will reveal in more detail the problems that global companies faced in 2020 according to the results of a survey by the PwC audit company. According to the report, 47% of respondents stated that they had encountered fraud. The main forms of fraud faced by companies are shown in Graph 2 [7].

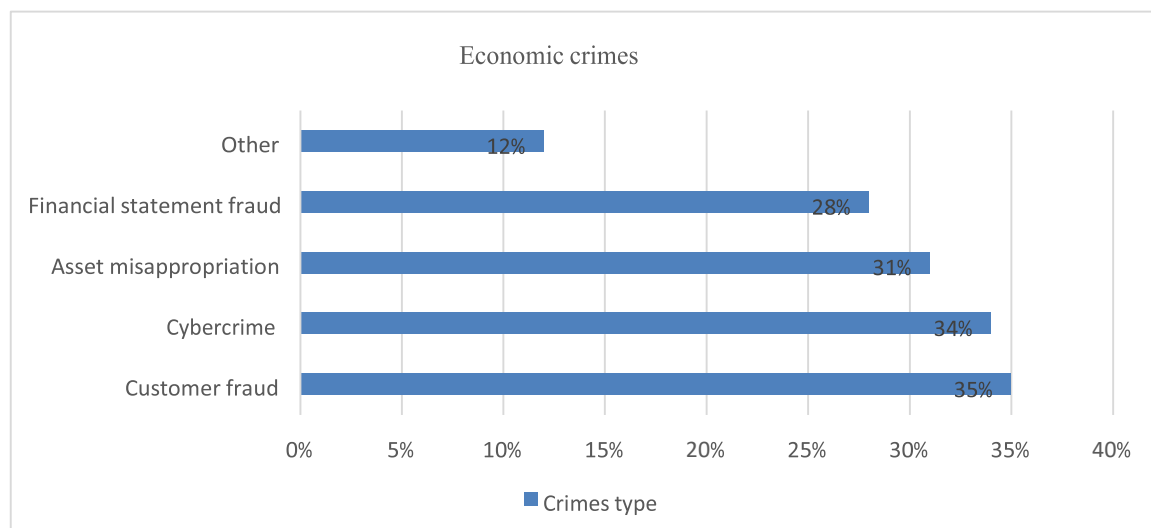


Figure – 2. **Negative consequences of economic crimes**

**compiled by the authors based on the source [7]*

The results of the graph above show that one of the most frequent forms of fraud is the distortion of financial statements. This fact was confirmed by the cases of the company in the amount of 28%. The presence of false information in the accounting statements entails various types of damages for all groups of stakeholders of the company, namely for investors, creditors, shareholders, counterparties, senior management, personnel, and the state. An example of the first problem was the case of the British confectionery company Cadbury. Prior to 2009, the company reported an IFRS-based profit of US\$ 690 million. According to GAAP, these profits amounted to only \$594 million, which is almost 14% lower. Similarly, Cadbury's GAAP return on equity was 9% - five percentage points lower than in accordance with IFRS (14%). Such differences are large enough to change the acquisition decision. Let's look at an example of the third problem on the example of Twitter. In 2014, the company reported GAAP losses per share in the amount of \$0.96, according to an alternative indicator, the amount was \$0.34 per share. The latest example, according to a survey of 400 executives by the Journal of Accounting and Economics, reveals that 80% of respondents said that if they do not meet profit targets, they will reduce fixed costs (for example, R&D, advertising, maintenance, hiring and training of employees). More than 55% said they would delay the start of a new project, even if it would entail a small loss in cost.

In 2015, there was a financial scandal in Kazakhstan around BTA Bank. This bank was one of the largest in the country and faced financial difficulties. During the analysis of the financial statements, it was found that the bank systematically overstated its assets and income, hiding real financial problems.

Manipulation of financial reporting indicators, in general, often entails serious negative consequences:

a. Investor and market confidence: Manipulations can undermine the confidence of investors and the market as a whole. When misstatements in the financial statements are revealed, investors lose confidence in the reliability of the information provided.

b. Legal risks and penalties: many jurisdictions provide for legal consequences for companies resorting to manipulation. Fines, lawsuits and other legal consequences can seriously affect the financial position and reputation of the company.

c. Loss of reputation: The reputation of the company may be significantly affected due to the detection of manipulation. This can lead to the loss of customers, business partners and employees.

d. Short-term gains, but negative consequences: Although manipulation can create a short-term impression of prosperity, in the long run it often poses a threat to the stability and sustainability of the company.

e. Harm to the long-term plan: Concentration on manipulation can divert attention from the development and implementation of a long-term business strategy of the firm. This fact can lead to a loss of chances for expansion and improvement.

f. Loss of value for investors: When manipulations in the indicators of reports are detected, the value of the company's shares often drops sharply, which reduces the value for investors.

g. Criminal liability: This is also relevant, since criminal charges may be brought against the subjects of the company resorting to illegal manipulation of business.

The drawbacks of financial statement manipulation often highlight how crucial morality and openness in business practices are to the long-term viability and prosperity of the enterprise.

Graph 3 shows the frequency of fraud risk assessment on financial statements in the global and Kazakhstan context.

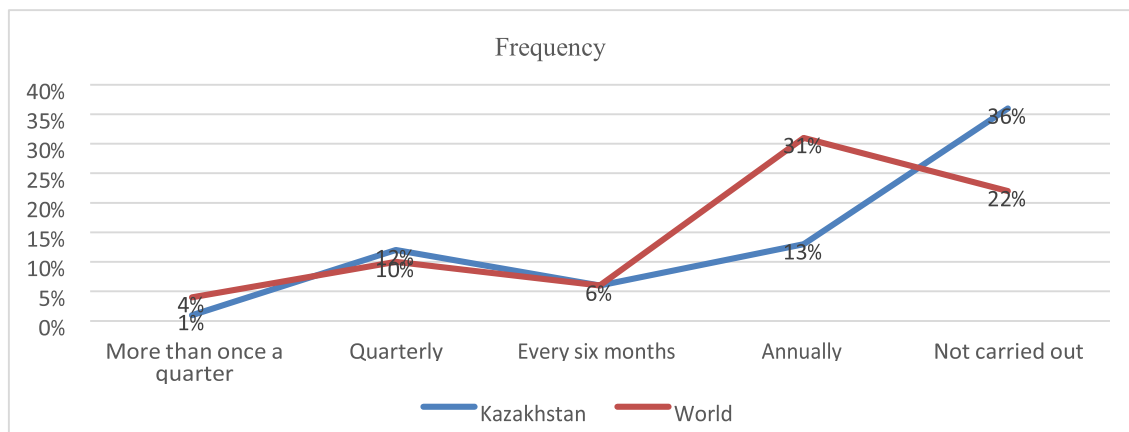


Figure – 3. **Frequency of assessment of the risk of misstatement of financial statements**

**compiled by the authors based on the source [7]*

According to the graph above, Kazakhstan has a sign for the lack of risk assessment verification that is 14% greater than findings from other countries. Foreign enterprises have superior performance in terms of annual inspection frequency, in contrast to Kazakhstan, where this opportunity has been reduced by 18%. This implies that businesses should conduct more inspections and set stricter requirements for them.

The following techniques for detecting fraud are employed by the same international and Kazakhstani businesses as of 2020, according to PwC. In graph 4, the statistics are displayed.

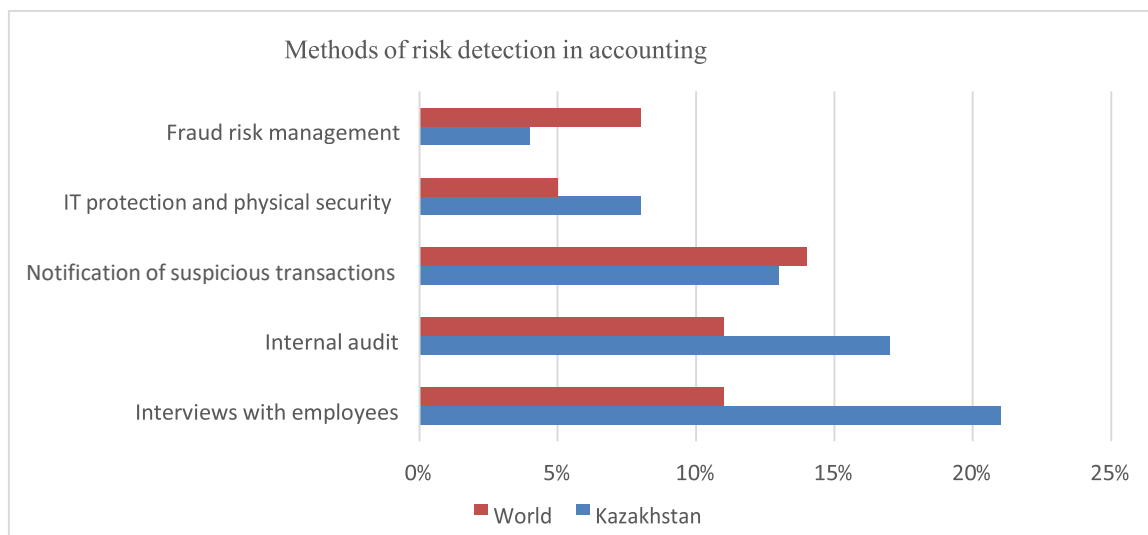


Figure – 4. **Methods of risk detection in accounting**

**compiled by the authors based on the source [7]*

The majority of economic crimes in Kazakhstan were detected by receiving information from employees (21%), as well as by the specialists of the internal audit service (17%). In the world, 11% and 11% of respondents' responses correspond to these methods of detecting criminal acts, respectively. Among the participants of the international survey, the most popular method of detecting economic crimes is to inform about suspicious transactions (14%), which corresponds to the share of respondents in Kazakhstan (13%).

Conclusion. The study of the problems of distortions of financial statements indicators requires a systematic methodology and approach to identify potential manipulations and analyze financial data. In the article we tried to touch upon the consequence, causes and consequences because of manipulation of financial statements indicators. In conclusion, we can emphasize the importance of studying the manipulation of financial indicators in the context of the modern business environment. The results of our research represent a major contribution to the field of corporate transparency and risk management. This analysis revealed not only potential threats associated with manipulation, but also possible strategies to prevent them. Our work shows that Kazakhstan, by many indicators, is lagging the world market in terms of the possibilities of identifying inaccuracies in the work of enterprises, leading to false ideas about the reputation of the company and even serious fraud in the future. Companies try to disguise accounting figures that will seem profitable in the short term to preserve prestige or personal gain. However, the risks of manipulating the report can be critical for reporting users and the company. The study's findings highlight that, despite the challenges in identifying manipulation, businesses, regulators, and auditors working together and applying best practices may provide a more transparent and stable investment environment. Future study on technology advancements and enhanced analytical techniques will contribute to the development of more potent defenses against manipulation.

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КОМПАНИЯНЫҢ ҚАРЖЫЛЫҚ ЕСЕПТІЛІГІН МАНИПУЛЯЦИЯЛАУ НӘТИЖЕЛЕРІ

Андатпа

Бұл мақалада біз қаржылық есептілік көрсеткіштерін манипуляциялау нәтижелері қарастырамыз және қаржылық көрсеткіштер заңнама мен бухгалтерлік есеп стандарттарына қарама - қайшы келетін айла-шарғы жасау объектісіне айналған кезде бизнес пен инвесторлар үшін ауыр зардаптар көрсеткіштері нақты анықталды. Компаниялардың манипуляциясы үшін келтірілген уәждер мен негіздемелер бизнесті басқарудың жеке аспектісі ретінде анықталды. Қаржылық есептілік көрсеткіштерін манипуляциялаудың себептері, тетіктері, салдары талданып, аудит және басқа да есепке алу әдістері арқылы мұндай тәжірибенің алдын алудың маңыздылығы екені көрсетілді.

Зерттеу әдістемесінде нақты қаржылық есептілікті бұрмалау, әдебиеттерге шолу жасау, аудиторлық фирмалардың ресми көздерінен керекті құжаттар мен мәліметтер жинау бойынша тұжырымдамалық аппараттың теориялық негіздеріне сүйене отырып анықталды. Бұл мақаланың өзектілігіне келетін болсақ, инвесторлар мен қатар менеджерлерге қаржылық есептілікті дайындауға қатысатын қызметкерлердің сауаттылығын нақты уақытта бағалауға сонымен қатар, манипуляцияларды анықтаудың кеңейтілген бер неше маңызды әдістерін қолдануға мүмкіндік бере алатын іс-шаралар арқасында көрсетілді. Мақаланың зерттеу нәтижелеріне келетін болсақ қорытынды бөлімінде көрсетілгендей ол, қаржылық есептіліктегі нақтылық, ашықтық пен сенімділіктің маңызды болатынын нық көрсетеді.

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РЕЗУЛЬТАТЫ МАНИПУЛИРОВАНИЯ ФИНАНСОВОЙ ОТЧЕТНОСТЬЮ КОМПАНИИ

Annotation

В данной статье авторами были рассмотрены результаты манипулирования показателями финансовой отчетности и выявлены серьезные последствия для бизнеса и инвесторов, когда финансовые показатели становятся объектом манипулирования, противоречащего законодательству и стандартам бухгалтерского учета. Мотивы и обоснования, приводимые компаниями для манипулирования, были выделены в отдельный аспект управления бизнесом. Были проанализированы причины, механизмы и последствия манипулирования показателями финансовой отчетности, а также показана важность предотвращения подобной практики с помощью аудита и других методов бухгалтерского учета. Методология исследования была определена как основанная на теоретических основах понятийного аппарата по фальсификации финансовой отчетности, обзоре литературы и сборе данных из официальных источников аудиторских фирм. Актуальность статьи была продемонстрирована благодаря возможности, которую она предоставляет инвесторам и менеджерам своевременно оценивать грамотность сотрудников, участвующих в подготовке финансовой отчетности, и применять расширенные методы выявления манипуляций. Результаты исследования подчеркивают критическую важность прозрачности и надежности финансовой отчетности.

