Detecting Financial Statement Frauds Using Beneish M-score Model Evidence from Sri Lanka

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Abstract

Financial statement manipulation refers to the practice of using creative accounting treatments to make a company's financial statements reflect what the company wants its performance to look like rather than its actual performance. Financial statements are the outcomes of the accounting process that are used by investors, shareholders, management, and other third parties to make various decisions. As a result, one of the greatest challenges facing companies, institutions, and organizations in the twenty-first century is financial statement fraud, which is increasing in quantity and size, affecting people's trust in the credibility of financial statements and corporate reports. Therefore, this study aims to identify the indications of financial statement fraud in public listed companies in the Colombo Stock Exchange (CSE) and to study how the different sectors are affected by the financial statement frauds by applying the Benish M-Score model.

The sample of this study consists of all the companies listed in CSE excluding bank, insurance, and diversified financials industry group between for the period of 2016-2020. Accordingly, this study uses secondary quantitative data by using annual reports of the listed companies.

The Beneish M-score model has been applied to different listed companies worldwide in order to detect the existence of income manipulation. Therefore, this study concentrates more on these concepts in order to detecting financial statement frauds in Sri Lanka. This study is very useful to the users of financial statements in Sri Lanka.

Key words: *Beneish M-score Model, Financial Statement Frauds, CSE*