DETECTING THE PROBABILITY OF FINANCIAL STATEMENT FRAUD DUE TO EARNINGS MANIPULATION - EVIDENCE FROM LISTED COMPANIES IN SRI LANKA

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Abstract

This study aims to investigate the probability of detecting financial statement fraud due to earnings manipulation in listed companies in Sri Lanka. Fraudulent financial reporting is one of the emerging topics in Sri Lanka in recent years and it made a huge noise about fraudulent financial reporting due to the large fraud cases happening in Sri Lanka. Companies will always try to find ways to prettify their financial statements and their earnings potential to appeal to all stakeholders. On the other hand, users of financial reports are worried about the truthfulness and fairness of financial statements. Current study tries to examine whether companies which are listed on the Colombo Stock Exchange would have engaged in earnings manipulation from the period from 2016 to 2021. This research uses Benish M-score Model which is a mathematical model as the methodology for reach the conclusion of this research. This research consider all listed companies in Colombo stock exchange in Sri Lanka during the period of 2016-2021 as the sample. According to the Sri Lankan context there is no significant study that has examine the probability of financial statement fraud due to earnings manipulation in all listed companies in Sri Lanka. This study provides valuable outputs relating the truthfulness of the financial statements of listed companies during the covid 19 outbreak.

Keywords: M score, Fraudulent financial reporting, financial statement fraud, Earnings Manipulation, Colombo Stock Exchange