FINANCIAL STATEMENT FRAUD DETECTION WITH THE NEW FRAUD DIAMOND MODEL; SPECIAL REFERENCE TO LISTED COMPANIES OF MATERIAL SECTOR

Jayasekara K.P.A.[1] and Perera K.H.[2]

[1]pramudiayodya@gmail.com; [2]hasinip@kln.ac.lk

Abstract

Financial statement fraud scheme is the least common and most costly in comparison to asset misappropriation and corruption. Because in the form of material misstatements of financial statements are harmed the investors and creditors of the entity. The purpose of this study is to evaluate the effect of the new fraud diamond model in explaining financial statement frauds. This study considered the new fraud diamond model which is an evolution of the fraud diamond theory and fraud triangle analysis. The variables included motivation, opportunity, personal integrity and capability. To measure the dependent variable, financial statement fraud, the 'Benish M-Score model' was used. All 18 companies have taken as the sample and data was collected from annual reports published in the Colombo stock exchange for the period from 2017-2021. Data was analyzed using regression analysis, descriptive statistics and correlation analysis. Findings of the study will be useful for any entity in order to identify the factors that causing for the financial statement frauds and their significance to the fraudulent financial reporting and supports the new fraud diamond model in elaborating the financial statement fraud phenomenon. The new fraud diamond model theory is a new and under-developed theory. So, the author suggests further research to be carried out to strengthen the theory and ensure whether it can be used as a reference to find out the causes of financial statement fraud. In addition, the object used in this study is limited to material sector companies, so the author suggests that further research combine several types of companies.

Keywords: *Financial statement fraud detection, New fraud diamond model, Material Sector*