

Original Paper

The Relationship between Accounting Frauds and Economic Fluctuations: A Case of Project Based Organizations in UAE

Shatha Mustafa¹ & Dr. Faisal Khan^{1*}

¹ Department of Finance and Accounting, City University College of Ajman, UAE

* Dr. Faisal Khan, Department of Finance and Accounting, City University College of Ajman, UAE

Received: January 22, 2020 Accepted: February 2, 2020 Online Published: February 21, 2020

doi:10.22158/jepf.v6n1p87

URL: <http://dx.doi.org/10.22158/jepf.v6n1p87>

Abstract

Purpose: the purpose of this study is to provide a better understanding of the rate of accounting frauds (misappropriation of assets, fraudulent financial reporting), and how they occur in different business cycles (economic fluctuations). Further, it aims at exploring the relationship between factors influencing the economic fluctuations and the level of accounting frauds.

Design/methodology approach: a qualitative research design used semi-structured interviews with a group of internal controllers and external auditors from the big four auditing companies in addition to other Leading and certified audit offices in UAE in order to identify how the factors influencing the GDP fluctuations could affect the degree of accounting frauds.

Findings: GDP components that influence economic fluctuations associate with the accounting frauds rate, especially fraudulent financial reporting. Economic factors including the GDP, unemployment and inflation are very important in the steadiness of an economy. The probable drop of GDP, or raise in unemployment level, high rates of inflation are positively influence the occurrences of accounting frauds.

Research limitation/implications: There are many ECONOMIC roots of business cycles and economic fluctuations such as variations in trading strategy, warfare, inflation caused by governmental finance or fears. But these represent non-economic data that is hard to be rationalized by economic theory. Typical macroeconomic theory inclines to illuminate business cycles by a number of mistake and emphasis on modifying this mistake either by dynamic strategy or by supporting a separate strategy (Raudino, 2016). Thus, it is very hard to capture all the factors influencing the economic fluctuations. However, most of the studies in the literature considers the GDP as the most important factors, in addition to inflation and unemployment.

Practical implication: This study contributes to both economic and accounting research by proving

findings from an investigation of the elements modifying the economical fluctuation and how these fluctuations might impact the rate of accounting Frauds (AF), with implications for economists and financiers, shareholders, stakeholders, stockholders and external inspectors of auditing companies an additional visions about the audit risk in PBOs at altered stages of GDP.

Originality/value: *This study contributes to both economic and accounting research by exploratory research into the GDP fluctuation, inflation, and unemployment and accounting frauds rate.*

Keywords

Gross domestic Product (GDP) fluctuations, Inflation, unemployment, accounting frauds rate, Project based organizations, Qualitative study

1. Introduction

This paper contributes to the both Accounting and economic literature by testifying results from an exploration of the factors affecting the economics fluctuation (mainly factors affecting the nominal GDP variations, unemployment and inflation) and how these inconstancies could affect the level of accounting Frauds (AF) in a project-based organizations in UAE. No one can deny that accounting has a vital impact on societal prosperity, as it plays a very important role in changing the measurement features of main macroeconomic pointers, and forms the decisions monetary strategy that control the money supply (Crawley, 2015). That has been noted by many studies such as Suzuki (2003), Kedia and Philippon (2009), etc. However, the global economy has witnessed massive loss due to the fraudulent undertakings.

Hence, progressively exterior auditors are being requested to perform a vital role in assisting businesses to avoid and perceive fraud. Economists, investors and external auditors have an increasing interest in highlighting a new possible factors that contributes to accounting frauds, and understating whether the economic factors that fluctuate the Gross Domestic Product (GDP) development, unemployment and inflation are related to the rate of accounting frauds (as discovering fraud is not a simple duty and needs full knowledge about the type of fraud, in what way or manner it could be committed and by what means it might by concealed (Kassem & Higson, 2012)). The focus is on economic factors that affect the occurrences of accounting frauds. As capturing all factors that drives economic fluctuations in one study is very hard; though, GDP is considered by the literature as the most important factor affecting the economic fluctuations due to its vital components (spending by several parties who contribute in the economy consumers and governmental spending, investments and net exports).

Accounting fraud in project based organizations is an issue that obtains important and upward consideration from officials, auditors, and the interested parties and accounting literature in general (Kedia & Philippon, 2009; Wang, Ashton, & Jaafar, 2019; Ćurlin et al., 2018; Kassem & Higson, 2012, etc.). Many studies aimed at providing exterior auditors with a good understanding about fraud and the reasons behind it based on Cressey's fraud theory.

Most theories interpreting the economic fluctuations by the rise and fall in GDP, as GDP has always

been considered preserved as contemporary matter that by many scholars such as Mohsin et al. (2018), Nurul et al. (2017), Ali et al. (2015), etc. However, many studies considered accounting information as a factor influencing the macroeconomic such as Crawley (2015); Bertomeu and Magee (2011); Kedia and Philippon (2009). In the present study, economic factors are defined by the GDP fluctuations, unemployment, and inflation. This has been amended from earlier research delivered by Fagerberg, Verspagen and Canišs (1997) and Dao (2012) and Mohsin et al. (2018). This paper examines the economic drivers of accounting frauds in project based organizations, through the gathering of rich and detailed data collected within qualitative research. The purpose of this study is to examine how economic factors that drive the GDP fluctuation, unemployment and inflation might influence the accounting fraud. It seeks at increase external auditors' awareness about the economic factors that might affect and interpret the occurrences of accounting fraud. It attempts to suggest a new model that exterior auditors can consider when evaluating the risk of fraud. The research questions explored are:

RQ1. How can GDP fluctuation affect the accounting frauds rate in project based organization in UAE?

RQ2. How unemployment might affect the accounting frauds rate in project based organization in UAE?

RQ3. How could inflation affect the accounting frauds rate in project based organization in UAE?

This paper is organized as follows: first, the research problem statement, Second the literature related to factors influencing the economic fluctuations and accounting frauds is reviewed. Third, research methodology as a qualitative research interviews with external auditors, internal controllers is described. Fourth, finding analysis & discussion through emerging themes around the factors influencing the economic fluctuations and accounting frauds are debated. Finally, the conclusion of the study and suggesting areas for further research are mentioned.

2. Research Problem

The Gross domestic Product (GDP) is considered as the most significant index of the economic development; it measures the total value of goods and services produced within a country in a specific period. Many studies have analyzed the elements that influence the GDP like Kira (2013), Mohsin (2018), etc.

As the accounting earnings contributes to calculating or forecasting the gross domestic product, hence, it is crucial to ensure that the financial reports accurately reflect the operational performance of the listed corporation in a country, financial situations, and societal accountabilities. These statements are invaluable index for many stakeholder, creditors, customers, and interested parties of accounting information. However, many annual reports overstate business activities to increase shareholders' wealth and get credit facilities from financial institutions, or other reasons, therefore weakening the efficacy of that statements (Chen et al., 2017), and worsening the accurate measurement of GDP. Thus, it is important to understand the occurrences of fraud in different phases of the business cycle through realizing the factors influencing the economic fluctuations, and how these factors affect the accounting

frauds.

This paper tries to recognize how factors influencing economic fluctuations are affecting the accounting frauds. The attempt of Bezemer (2010), explained the financial crisis by accounting paradigms, in addition, Bezemer offered a proof that accounting macroeconomic paradigms aided expect the credit catastrophe and economic slump, while the stability models paradigms in normal strategy and investigation could not help. Hence, Bezemer's paper tracks down the conceptual roots of the accounting process as an alternate to neoclassical economics, and the after warfare increase and drop of cash flow paradigms in strategy practices. It comprises modern case studies of two styles of paradigms, and reflects why the accounting method has stayed exterior the normal economics. It affords positive commendations on reviewing approaches of financial stability valuation and promotes an accounting of economics (Bezemer, 2010). However, No paper has studied how accounting frauds in project based organization in UAE occur in different phases of the business cycle? Many accounting frauds have been occurred over time; however, most of the studies were focusing on the pressure (external or internal), opportunity or justification of the fraud. But no paper has studied whether or not these frauds are correlated with a certain economic fluctuations. Furthermore, this study aims at understanding how accounting frauds occur under different economic fluctuations, thus understanding such relationship will provide economists and investors and external auditors extra insights about the audit risk in PBOs under different levels of GDP.

3. Research Justification/Theoretical Background

3.1 Themes Related to Economic Fluctuations

Inconsistent development of GDP within a nation will result in a greater occurrence of poorness in addition, it obstructs the economic growth in different sectors (healthcare, educational, criminality), and thus, studying GDP growth elements are quite essential to avoid the rate of social and radical insecurity (Nurul Aini Raja Aziz & Azmi, 2017).

Existing literature regarding factors influencing the economic fluctuations and accounting frauds covers themes related to Gross Domestic Product (GDP) [nominal GDP, real GDP, actual GDP, potential GDP, GDP per capita] through GDP growth equation that is centered on the spending by several parties who contribute in the economy; consumption or all individual consumer expenditure inside a nation's economy on merchandise and services, total government expenditures, total of a nation's investments in capital goods, net exports or a nation's total exports minus total imports (Dao, 2012). Hence, GDP has been addressed in the literature as the key reason behind economic fluctuations in addition to the factors influencing it. This study adopts the GDP as a factor behind the economic fluctuations. Fagerberg, Verspagen and Cani ės (1997) showed innovation, expansion of technology, undesirable industrial structure (the domination of agriculture), employment, labor supply, unemployment as factors affecting the GDP growth. However; this study will not consider all the factors mentioned by Fagerberg, Verspagen and Cani ės (1997) except unemployment. Inflation rate

(IN), Exchange rate (EX) have been addressed by Mohsin et al. (2018) as variables impact the GDP; this paper will cover the inflation as a main theme affect the economic fluctuations as it has great effect on GDP. Ali et al. (2015) reviewed the exchange rate as a crucial pointer of a country's economic growth and the important influence of its instability on global commerce. Ali et al. (2015) have also investigated factors influencing the instability of exchange rate in Pakistan (inflation, interest rate and money-supply). Despite the importance of the themes that have been addressed by Ali et al. (2015), this paper will cover only the inflation, and exclude the effect of interest rate and money-supply. Kira (2013) studied the factors influencing (GDP) in Tanzania as a case of emerging economies by testing the Keynes model in Tanzanian GDP from 1970 to 2009, and highlighted issues like exports, consumption (ultimate expenditure of the government and ultimate expenditure of family units), investment, upsurge in oil costs, power deficiencies and the unsteadiness politics as a characteristic cause of GDP dropping in developing countries which require direct resolution (Kira, 2013), this paper does not adopt the Keynes model. Life engagement has been studied by Hill et al. (2019) as factor affecting GDP; by proposing that persons who declare a nobler concept of objective of lifetime incline to perform well economic wise, which might be anticipated to spread to the social-level, higher GDP wise. Though, past effort has revealed a weak connotation between civilians' accounts of objective of lifetime and GDP, Hill et al settles these variances by particularly bearing in mind a significant factor of logic of objective of lifetime absent in the previous communal literature, that is life engagement. findings show a strong connotation between life engagement and GDP. Furthermore, findings illustrate the characteristic significance of measuring life engagement comparative to alternate metrics for associated theories (Hill et al., 2019), however, this paper does not cover "life engagement" as a theme of economic fluctuations. Furthermore, remittances is considered a factor affecting economic fluctuations according to Bahadir, Chatterjee and Lebesmuehlbacher (2018) who have analyzed the functional imbibition of transmittals at the macroeconomic point, comparing two potential influences on economic movement, reliant on whether these accumulate to end earnings employees or credit for self-conscious businesspersons. By DSGE paradigm (an exposed economy paradigm) with varied families, Bahadir, Chatterjee and Lebesmuehlbacher illustrated that the consequences of transmittals are essentially shrinking if they accumulate to the end users, and expansive when they accumulate to the businesspersons. Standardizing the paradigm to the Philippines by both collective data in addition to micro-proof from the Household earnings and spending Survey, results demonstrated that accounting for both mandatory credit limits and the interior supply of transmittals increases the appropriation of the paradigm to the data. Prosperity wins the effect when the sharing of transmittals is tilted to businesspersons (Bahadir, Chatterjee & Lebesmuehlbacher, 2018), conversely, current paper is not studding the role of transmittals in economic fluctuations.

Konchitchki and Patatoukas (2014) have authenticated that "collective accounting gains growing" is gradually important prominent pointer of development in nominal Gross Domestic Product (GDP). Expert rigorous predictors, though, do not completely integrate the foretelling subject implanted in

openly obtainable data of accounting gains. Consequently, forthcoming nominal GDP development prediction faults are foreseeable built on data of accounting gains that are timely accessible to proficient macro predictors (Konchitchki & Patatoukas, 2014). Present paper is attempting to study the conflicting effect of the economic fluctuations on the accounting frauds. Ong (2013) has endeavored to empirically examine the association among macroeconomic factors and the accommodation rate. Ong attempted to inspect if the growing tendency in the accommodation rate in Malaysia is associated to fluctuations in the gross domestic product (GDP), populace, inflations level, prices of building, rate of interest and taxation of real gains from property. The experiential data were composed from Valuation and Property Services Department of the Ministry of Finance Malaysia from 2001 to 2010. The study afforded empirical findings for entrepreneurs, stakeholders, shareholders, financiers and consumers that the gross domestic product (GDP), population and taxation of real gains from property are the main factors of accommodation rate (to distinguish factors needed to be considered for decision making of investing in accommodation). However, changes in accommodation rate might not essentially be affected by these three factors in Malaysia. The over-all result of Ong's investigation sturdily proposes that accommodation foams in the housing sector in Malaysia are getting larger and resilient (Ong, 2013). In spite of the importance of accommodation rate in the GDP fluctuations, it is not adopted in current study.

The paper of Nurul et al. has studied elements influencing gross GDP growth in Malaysia by examining the association among Gross Domestic Product (GDP) development and the elements like Inflation, Foreign Direct Investment (FDI) and Feminine Work Force Involvement in Malaysia. Data collected from the yearly time chain from 1982 to 2013, Ordinary Least Square Technique (OLS) and Augmented Dickey Fuller (ADF) are applied for the analyzing data. The findings detected that FDI and Feminine Work Forces affirmatively influence GDP development. Nevertheless, FDI is the solitary factor that participates considerably in GDP development in Malaysia. Furthermore, Inflation has a negative association with GDP development but it is not weighty element in the direction of GDP development in Malaysia. Moreover, it is exposed that the GDP, Inflation, FDI and Feminine Work Force are steady in levels. According to findings, it is recommended by keeping the steadiness on inflation; Malaysian regime will be able to enlarge taxation and decrease government expenditure so as to decrease the density of inflation (Nurul Aini Raja Aziz & Azmi, 2017). This paper has considered the inflation factor, and neglected the Foreign Direct Investment (FDI) and Feminine Work Force Involvement. Furthermore, this paper did not include the macroeconomic factors and stock market connections that have been studied by Gan et al. (2006) who has provided evidence from New Zealand about that. Gan et al. aimed at defining if the Stock Index is a principal pointer for macroeconomic factors. Thus, Gan et al. applied cointegration tests (Particularly Johansen Maximum Likelihood and Granger-causality tests) to analyze the interactions between the Index of Stock and a group of seven macroeconomic factors from January 1990 to January 2003. Moreover, the study of Gan et al. (2006) examined the short term functional associations between Index of Stock in New Zealand and

macroeconomic factors by means of innovation accounting tests. Generally speaking, the Index of Stock in New Zealand is steadily influenced by the interest rate, money supply and real GDP and there is no proof that the New Zealand Stock Index is a principal pointer for fluctuations in macroeconomic factors (Gan et al., 2006). Current paper did not accept the healthiness factors proposed by Weil 2007, who used microeconomic approximations of the influence of healthiness on people's productivity to build macroeconomic approximations of the probable influence of healthiness on GDP per capita (Weil, 2007).

Bertomeu and Magee (2011) have attempted to show how the low-quality reporting contributes to financial crises: Policymaking of disclosure ruling sideways the economic cycle. In other words, Bertomeu and Magee (2011) inspects how financial reporting regulations influence, and react to, macroeconomic cycles by discovering a affirmative framework in which officials undergo governmental forces reply to cyclic demands by debtors and creditors. Bertomeu and Magee demonstrate that, as economic situations drop first, governmental authority moves to interest parties preferring fewer transparency in the financial statements. Then a opposite - repeated growth in economic activity, due to extra non-recording loans are funded, probably accidental with further collective hesitation. Throughout a recession, reportage quality is improved, possibly producing a crisis-like modification of economic activity to the cycle. Bertomeu and Magee also deliberate suggestions for incident studies, bank politicization, mark-to-market and cost of capital (Bertomeu & Magee, 2011). Bertomeu and Magee (2011) provide an evedince about the how the low-quality reporting contributes to financial crises, therefore this study adopts the themes related to business cycle from their paper.

Last but not least, the paper of Jain et al. attempts to examine the influence of several macroeconomic elements (Manufacturing, Services, and Industry) on GDP parts in India. Jain et al utilized the secondary data from 2000 to 2012. Data were gathered from the Economic study of India and Reserve bank of India reports. The reliant factor in the paper was GDP parts and was identified as a role of several macroeconomic indicators of growing. The independent factors can be FDI, Net FII equity, Net FII debt, Import and Export. Multiple regression analysis was applied to advance the association. The results of the analysis revealed weighty influence of FDI, Net FII equity and Import on GDP parts. Net FII debt had no important impact of on GDP components. Export as well had no major impact on GDP (Manufacturing, Industry) parts but service had an important impact (Jain, Nair, & Jain, 2015). Despite of the important influence of macroeconomic elements of manufacturing, services and industry on GDP, this paper is not studying their effects on economic fluctuations in UAE.

3.2 Themes Related to Accounting Frauds

Fraud discovery has many appliances of data mining, varying from the deception of credit card to taxes dishonesty. The study of Ćurlin et al. (2018) aimed at showing the appliances of data mining methods (the CHAID decision tree) in one project-based organization in order to realize models in interior control- interrelated fraud (Ćurlin et al., 2018). However, the current study is not adopting the context

of detecting frauds or discovering frauds tactics. The paper of Suzuki, 2003 that showed that the impacts of financial and macroeconomic accounting on modern economic community have not been studied in deepness from a cognitive and analytical point of view (Suzuki, 2003); this study is not about studying the impact of accounting frauds and macroeconomic accounting on modern economic community. In spite of the importance of the paper of Kedia and Philippon (2009) explored the effects of accounting for the allocation of resources between businesses, and they debated that accounting frauds has important economic consequences. They initially developed a model where the expenses of managing earnings have an internal cause or origin, and they illustrated that, in balance, immoral bosses rent and spend too much, falsifying the portion of actual resources. They examined the forecasts of the several dimensions warning model via fresh, chronological and organization -level data. They primarily presented that the stages of great stock market estimations are steadily tailed by great growths in frauds announcement. Next, they demonstrated that, throughout phases of doubtful accounting, people privy to information unavailable to others usually retail their shares, while misreporting companies rent and spend similar the companies whose revenue they are attempting to resemble. Once they are grasped, they infused main work and capital and increase their factual production. In the summative, their model appears capable to explanation for the latest era of unemployed and investing -less evolution (Kedia & Philippon, 2009). This study is not in the context of exploring the economic consequences of the accounting frauds. The paper of Wang, Ashton and Jaafar (2019) studied the association between communal finances and accounting fraud from 2007 to 2014. They perceived investments that are financed by mutual fund have considerably greater ranks of fraud revealing, decreasing companies' tendency to perpetrate fraud. This authorizes officials' attempts in china to improve mutual funds to focus accounting fraud. Open-ended communal funds surpass closed-ended communal funds in revealing accounting fraud and decreasing fraud charge; useable shares give the impression to control administrators. This influence is diluted by national possession of listed companies: it is hard to perceive fraud in companies possessed by the government in case of communal funds (Wang, Ashton, & Jaafar, 2019). Despite the similarities between this paper and the paper of Wang, Ashton and Jaafar (2019) in terms of considering the fraud perpetration as a dependent variable (they gave value of 1 if an organization compels accounting fraud and zero if not, they also have used the bivariate probit model to solve the fractional observability difficulty of accounting frauds), current study is not adopting the probit model to determine the accounting frauds themes, it is also not considering the control variables related to firm size, duality, board meetings, BIG4 if the firm auditor is one of the four biggest auditors, the number of members on the supervisory board, ratio of research and development expenditures to total assets, political ties, leverage, growth, ROA net profits divided by total assets, stock returns, abnormal volatility , abnormal turnover.

The study of Wagenhofer (2011) has been an attempt to build a theory of accounting ruling via debate about the policies of disclosure rules lengthways the economic cycle, the study of Bertomeu and Magee brought accounting instructions under the control by a plurality - looking for governor and test how the

economic cycle influences the fineness of compulsory reporting. This debate places the study in the wider framework of a theory of accounting regulation. At that point, it emphasizes on essential assumptions, containing the external factors contributed to the development of the economy, the impact of market contacts, the molding of the quality of reporting, and the practice of regulating in addition to the sequences of the process of regulating accounting rules (Wagenhofer, 2011). While the paper of Xu, Zhang and Chen (2018) studied the interaction between Board role and accounting frauds in business organizations. Contrasting previous literatures that have concentrated on either CEOs or boards of managers, Xu, Zhang and Chen have taken an interactive point of view to examine the factors of financial fraud in business corporations. Xu et al. suggest that executives assess the chances for financial fraud based on both circumferential motivations and their own individual attributes. As elder executives are usually more knowledgeable and will lose a lot if their supervising obligations went wrong, it is anticipated that they will be more proficient and to have solid incentive for observing CEOs carefully. Thus, Xu suggest that a CEO is less probable to involve in financial fraud when the board age rises. Though, when the CEO is elder than the board, the CEO might assign fewer significance to board age when determining whether to compel fraud (Xu, Zhang, & Chen, 2018).

The paper of Suh, Nicolaides and Trafford (2019) showed the effects of decreasing opportunity and fraud risk factors on the rate of professional fraudulence in financial organizations. Interior deception has been recognized as one of the causative elements for risky bank disasters. As the opportunity is the greatest reason of offense, Nicolaides and Trafford (2019) endeavored to evaluate the associations between the recognized “opportunity decay” and further fraud risk elements in connection with the “probability of fraud rate” in financial organizations. For examination, the paper collected 395 survey replies from financial segment in South Korea. The findings emphasized that how to activate governor appliances merging banning and disincentive procedures have a higher importance in stopping fraud than the lake presence of various anti-fraud dominations. Moreover, the paper found out that the workers of the financial organizations in Korea think that the risk of administration dominate of controls is a more dangerous risk than conspiracy in their association (Suh, Nicolaides, & Trafford, 2019). Suh, Nicolaides and Trafford (2019) afforded no themes related to capturing the incidence of professional fraud as a dependent variable; however, they revealed themes related to independent variables such as number of anti-fraud controls, perceived opportunity reduction, perceived management override, perceived collusion. In addition to the themes related to control variable (IC/Support department, Organizational size, financial institution type regional banks, agri-fishery coop, Community credit coop, Credit unions, and savings banks).

Kassem and Higson (2012) studied frauds in organizations and aimed at lengthening external auditors’ awareness about fraud and why it happens. They explained Cressey’s fraud triangle model and presented its importance, introduced the other fraud models and related it to Cressey’s model, and suggested a novel fraud triangle model that exterior inspectors should reflect when evaluating the risk of fraud. This paper adopts themes of accounting frauds that have been studied by Kassem and Higson

(2012) as they revised the literature and exposed that academics categorized the reason of the fraud triangle inversely. Various scholars categorized them as individual, employment, or exterior pressure, while others categorized them as financial and non-financial pressures. Though, it could be perceived that both categorizations are in some way associated. For example, individual pressure might emanate from both financial and non-financial pressure. An individual financial pressure in this situation might be betting need or an unexpected financial requirement, whereas an individual non-financial pressure could be absence of special punishment or greediness. Similarly, employment pressure and exterior pressure might have financial or non-financial pressure roots. Hence, exterior auditors should consider that force/motivation to compel fraud could be either a individual pressure, employment pressure, or exterior pressure, and all these categories of pressures might also occur due to a financial or a non-financial pressure. External auditors similarly must realize the opportunity for fraud to assistance them in recognizing which fraud arrangements a person could compel and how fraud risks happen when there is an unsuccessful or absent internal control (Kassem & Higson, 2012).

While Cressey's fraud triangle has been adopted by auditing officials (ASB and IAASB), pundits disputed that the model itself is an insufficient instrument for stopping, inhibiting, and discovering fraud; as pressure and rationalization (two edges of the fraud triangle) are hard to be detected, and certain significant elements, like impostors' abilities are disregarded. Therefore, a number of scholars proposed the rationalization could be substituted by individual integrity since it might be more noticeable, others proposed the motivation side requests to be extended to comprise non-financial elements such as character and pressure, whereas others recommended adding a fourth side to the fraud triangle about the "fraudster's personal capabilities". The paper of Kassem and Higson (2012) showed how it is crucial to exterior auditors to consider the fraud models in grasping why frauds happen. Further, they proposed that all other fraud models ought to be considered as a broadening to Cressey's fraud triangle model and ought to be combined in one model that contains incentive, prospect, honesty, and swindler's competences. This model ought to be named "the New Fraud Triangle Model". Henceforth, with the innovative fraud triangle model, outside auditors will reflect all the essential elements donating to the incidence of fraud. This will aid them in efficiently evaluating fraud risk.

Thus, literature considered several ECONOMIC origins of business cycles and economic fluctuations, but it is very hard to capture all the factors influencing the economic fluctuations. Hence, this study tests the economic fluctuations in terms of GDP factors, inflation and unemployment. Whereas, accounting frauds are being tested in terms of fraud risk elements (Incentive or motivation, opportunity, fraudster's capabilities, personal integrity).

After carrying out a methodical works review, Table 1, and Table 2 summarize themes attained to conduct this study.

Table 1. Economic Fluctuations Themes

Variables 1	economic fluctuations		
Themes	GDP Factors	Inflation	Unemployment
Research justification	Dao (2012); Konchitchki and Patatoukas (2014); Jain, Nair and Jain (2015) as actual GDP represents timely amount of all productions at any given time. It reveals the current position of commerce of the economy.	Nurul Aini Raja Aziz and Azmi (2017); Mohsin et al. (2018); Ali et al. (2015), etc. as the nominal GDP is the aggregate worth of all merchandises and facilities created at existing marketplace values including all the fluctuations in prices of the market throughout the current year as a result of inflation or deflation.	(Fagerberg, Verspagen and Cani Ċs (1997) as Potential GDP represent epitome economic circumstances with 100% employment through all sectors, stable currency, and unchanging product values.

Table 2. Accounting Frauds Themes

Variables 2	accounting frauds			
Themes	Incentive or Motivation,	Opportunity,	Fraudster's Capabilities,	Personal Integrity
Research Justification	Kassem and Higson (2012); Xu, Zhang and Chen (2018)	Kassem and Higson (2012); Suh, Nicolaides and Trafford (2019)	Kassem and Higson (2012)	Kassem and Higson (2012)

4. Research Methodology and Research Questions

4.1 Research Design

The temperament of the research question to be inspected, the experiential nature of economic fluctuations and accounting frauds, and the need to further intensely comprehend this phenomenon, proposed a qualitative research design (Edmondson & McManus, 2009). Qualitative methods pursue to extra profoundly understand the economic context of a phenomenon and the sense auditors convey to it (Denzin & Lincoln, 2005). The framework for the research is a UAE, project-based organizations, auditing firms. The election standards for the research were established on theoretic selection rather than numerical selection (Glaser & Strauss, 1967). Consequently, the paper's position should have the ability to spread out the grasp of developing theory rather than for the reason of its numerical aspects (Eisenhardt, 1989).

4.2 Data Collection

Data collection procedures comprised interviews, observations the internal control environment and secondary document analysis about some organizations. Multiple methods of data collection support data triangulation (Guba, 1981; Shenton, 2004). To answer this paper's questions, one vital basis of information is 15 semi-structured interviews, 10 of which were conducted with top respondents—including higher level managers in the two of the big four audit firms (Note 1) (Deloitte

and PricewaterhouseCoopers (PwC)), in addition to audits in Talal Abu-Ghazaleh Organization. This paper relies on interviews with five persons participated in other UAE bankers, whose experience and analysis has connection to issues in GDP factors, inflation, and unemployment. Interviewees were categorized based on: the writers' current relations with individuals at work in this area, an investigation of websites and records afforded by firms concerned in these matters and snowball methods as first interviewees proposed further contacts. After composing an initial draft, respondents were communicated for a second time to revise and, if needed, review or modernize themes from their interviews. The objective of these interviews is not to make a sweeping statement from the review to greater populace but more accurately to utilize experts' understanding of GDP factors, inflation, and unemployment, and its influences on accounting frauds rate.

The semi-structured interviews were organized by an interview protocol that delivered broad questions in a related design whereas offering resilience within a free - open research method (Patton, 1990). The questions of the semi-structured interviews were advanced from the present literature and stretched with presence of the analytical occurrence method, that was utilized to assist members to refer to earlier instances and the significance they enclosed to these (Butterfield et al., 2005). Specifically, interviewees were requested to refer to a phase and circumstances when they detect high rate of accounting frauds in their auditing and a different phase when they detect a very low rate of accounting frauds in their work. Furthermore, interviewees were requested to clarify how their knowledge about the risk factors contributed in producing their finest results. Meetings were documented and written down and normally required around 45 and 90 minutes. The team manager was interviewed twice with meetings of 60 minutes each.

5. Finding Analysis

5.1 Data Analysis

Data were converted into a particular code by a repeated procedure, mixing both predictable and coming forth themes and themes that were recognized build on the rate at which comment occurs or is repeated in the given sample. Analyzing the data was done by means of the matrix method recommended by Miles and Huberman (1994), with data diminishing, presenting and conclusion representation to define configurations of relations and paths (Patton, 1990). The NVivo software package was utilized to arrest and simplify this investigation. A diagram of how this thematic coding method operated is delivered in Table 3.

Table 3. Overview of Concepts and Aggregate Dimensions

1st order concept	2nd order themes	Aggregate dimensions
economic fluctuation	<ul style="list-style-type: none"> • Economic growth • economic contraction • recessions and recoveries • changes in the level of national economic growth and income 	GDP dynamics or business cycles phases
periods of economic fluctuation where growth is the highest/lowest during a business cycle	<ul style="list-style-type: none"> • Expansion or ‘boom’ • Peak • Recession • Depression • Trough • Recovery 	
the main reasons of GDP dynamics or business cycles phases	<ul style="list-style-type: none"> • Inflation • Economic activities • Exchange rate • Interest rate 	Inflation
How economic activities, exchange rate and interest rate affect the GDP dynamics	<ul style="list-style-type: none"> • Unemployment 	Unemployment
What are the procedures taken (as an auditing organization)	<ul style="list-style-type: none"> • audit guide • audit methodology • ISA OR ICAI • sector • Size of the firm affects auditor’s evaluation. • understanding the accounting cycle and the flow chart of documents and activities, the internal control is crucial 	Internal control
First we need to distinguish between unintentional errors (could be corrected), and intentional violation. triangle of frauds;	<ul style="list-style-type: none"> • Error • further investigation • collect the evidences, • communicate that with the Board of Directors • pressure, • opportunity, and • justification • Rationalization. 	<p>The relative importance of the item plays a role in case of errors</p> <p>Incentive or motivation opportunity fraudster’s capabilities personal integrity</p>

5.2 Findings

Key findings related to business cycles and economic fluctuations are grouped in three areas comprising GDP dynamics, inflation and unemployment. Whereas, accounting frauds are being tested in terms of fraud risk elements (Incentive or motivation, opportunity, fraudster's capabilities, personal integrity).

GDP components that influence economic fluctuations associate with the accounting frauds rate, especially fraudulent financial reporting. Economic factors including the GDP, unemployment and inflation are very important in the steadiness of an economy. The probable drop of GDP, or raise in unemployment level, high rates of inflation are positively influence the occurrences of accounting frauds.

5.2.1 Accounting Frauds

a. Misappropriation of Assets

Interviewee's pointed that components that influence economic fluctuations might influence indirectly misappropriation of assets rate; as under certain phases of business cycle (recession, depression, and trough), the motivation behind the theft might be financial pressure to cope with the financial situation. However, most of the interviewee's did not considered this association as a strong - important like because it is more related to the personal integrity. In statue of unemployment individual will be facing a high pressure of downsizing, so some will think of stealing, hence the auditing risk will be higher especially the misappropriation of assets.

b. Fraudulent Financial Reporting

Fraudulent financial reporting happens because of different reasons (private motivations, market forces, absence of morals, purposed submissiveness to the forecasts of economic experts, efforts to move the value of stock, etc.

Interviewee's pointed that fraudulent financial reporting is more likely to occur in statue of inflation; as organization will be facing a high pressure towards mitigating their profits stable under GDP fluctuation, hence the auditing risk will be higher towards fraudulent financial reporting. Fraudulent financial reporting can be inspected by exterior auditors, guidelines and a liberated board of directors. Though, an ethical business philosophy is the key requirement for unbiased and true financial statements.

c. Internal Control

Interviewee's referred to one of the International Standards on Auditing (ISA Risk Assessments and Internal Control) as the standard that aids the auditor in grasping the accounting system of the firm being audited and internal control system in order to consider control risk and intrinsic risk. The point is to decide the quality, time and degree of practical procedures so as to decrease audit risk to a satisfactory small level. ISA 400 debates the "walk through testing" or auditing in depth test.

Interviewee's also raised issues related to audit guide, audit methodology, ISA OR ICAI, sector, Size of the firm affect auditor's evaluation, understanding the accounting cycle and the flow chart of

documents and activities, the internal control is crucial, and admit to affirm the motive for the analysis to appraise and expand accounting and internal controls over their process. This is a truthful demonstration, nevertheless their unspecified goal of inspecting possible fraud. Especially, under the recession, depression, trough where the Incentive or motivation for fraud is high, opportunity might be created via collusion that will increase the fraudster's capabilities if the personal integrity is not exist. Internal control system that aims to stop fraudulent financial reporting comprise of exterior auditing, independent board of directors, dynamic officials, watchful capital markets and generally ethical philosophy of the business.

d. The Relative Importance of the Items Playing a Role in Case of Errors

Interviewee's also raised issues related to audit guide, audit methodology, ISA OR ICAI, sector, Size of the firm affect auditor's evaluation, understanding the accounting cycle and the flow chart of documents and activities, the internal control is crucial, and admit to affirm the motive for the analysis to appraise and expand accounting and internal controls over their process. This is a truthful demonstration, nevertheless their unspecified goal of inspecting possible fraud. Especially, under the recession, depression, trough where the Incentive or motivation for fraud is high, opportunity might be created via collusion that will increase the fraudster's capabilities if the personal integrity is not exist. Further, Interviewee's added that the relative importance of the item plays a role in case of errors, while in case of fraudulent financial reporting a fraud of \$1 is a big crime because it must have a root and hid disaster behind it as one incident of fraud will lead to chains to conceal the previous effects of the past fraud.

e. Incentive or Motivation

Interviewee's highlighted that managers usually execute fraud in a different way from employees, whose incentive happen when they have a principal motive to twitch from the firm such as bills or other unethical reasons. Usually, motivation grows from preferring to solve their financial issues without sharing them with their relatives, in this case, workers have recourse to solve their problems by themselves instated of mortification risk of disclosing that employee are not able to meet their obligations [Worker's husband has been fired, the worker dissolve her marriage and has costly expenses, or addiction issues (drugs, alcohol, or gambling), the case of purchasing a new house with a mortgage rate moving very fast, the case of not taking vacation (this might be a sign of trying to hide the fraud)]. Manager's motivations' to compel fraud come from the compensation system; as Individuals in higher management generally have a fairly weak income and most of their advantages are from bonuses linked to the achievement rate of firms targets.

However, the above mentioned cases usually could be reasons behind the misappropriation of assets or fraudulent financial reporting in an individual level, but the most risky level is when a collusion happens among the top management; hence an intentional omission or misstatement of financial reports to cheat interested parties of financial statements investors, lenders, stakeholders, banks, vendors, etc. the causes for fraudulent financial reporting comprises external factors like markets pressures, or

internal pressure from owners to persuade creditors incentives and personal conflicts of interests.

f. Opportunity

Interviewee's emphasized that opportunities for deception (because of absence of highlighting corporate ethics), etc. and individual compelling the fraud realizes an internal control fault and, think committing frauds will not be recognized by others, thus they might start the fraud with a minor volume of money, if things went well, then the volume of fraud will redouble more.

g. Fraudster's Capabilities

Interviewee's underlined that technological developments enabled fraudsters of discovering different techniques to trick people. Interviewee's also referred at identifying persons who have perpetrated frauds and compared the worth and length in addition to several attributes.

h. Personal Integrity

Interviewees' has raised that individual honesty and societal accountability are significant morals to create right and gainful administrative decisions, that necessitates the decision fabricators to enhance their individual caution in producing reliable, trustworthy, and cost-effective professional decisions. Similarly, the societal accountability factor required decision makers to take choices that running remunerations and preventing damages to the shareholders.

5.2.2 Economic Fluctuations

a. GDP Dynamics

GDP dynamics, the business cycle, economic cycle or trade cycle, are being used alternatively to describe the sinking and rising progress of gross domestic product (GDP) nearby its long-run growing tendency. The interval of a business cycle is the time taken covering a single flourishing peak and shrinkage in order. These fluxes normally encompass changes over interval among phases of comparatively fast economic progress (expansions or booms) and phases of comparatively sluggishness or drop (contractions or recessions).

The clarification of fluxes is one of the key alarms of macroeconomics. Keynesian economics is considered as the core model for illumination such fluxes, combined with the Keynesian clarification there are other substitute models of business cycles, mostly related to the specific approaches or academics in nonconformist economics.

b. Inflation

Whereas inflation could be easily recognizable to experts in economics, there are additional situations that could distinct. For example, there is potential linkage between economic cycle and inflation even when an economy is drawing back, or shrinking. If purchaser values remain up surging, and (GDP), appear for shrinkage, this might cause a slack. This is probable to stress on the price of a national currency, and consequently lead to a negative influence on worldwide commerce, and raise the potential stress on the company's management to overstate their financial report to maintain the same numbers of outsider shareholders.

When an economy suffers from a recession (GDP drops leastwise for two Consecutive quarters), then

the business cycle and inflation are typically in severe difference to each another. Consequently, throughout declining phases, national officials might necessitate to intervene to maintain interest rates small so that the economy is not decelerating more.

c. Unemployment

Generally, officials have to direct economies in phases where customer rates intimidated to increase whereas different elements, like unemployment level, are indicating a deceleration of the economy. The level that the foodstuff and energy rates increase could be signifying inflation whereas the employments state is telling declining situations, making a gap among the trade cycle and inflation. This is probably increasing the difficulty for financial officials to perfectly regulate the proper economic intensity with interest rate fluctuations. Interviewees' has indicated that under the situations by which unemployment status is telling declining in economy employees will be worried about the retrenchment or downsizing, which will increase the pressure so some will think of theft or pillage, henceforth the audit risk will be complex particularly the misappropriation of assets.

6. Discussion

Several themes appeared from the analysis as factors influencing the assessment of frauds risk in PBOs at altered stages of economic fluctuations in UAE. GDP mechanisms that impact economic fluctuations also influence the accounting frauds occurrence, as the inflation contact the economic stability, thus the potential fall of GDP is positively impact the pressure opportunity of perpetration accounting frauds, this is corresponding with the findings of The study of Lyu et al. (2018) showed the effect of GDP management in achieving or failing to achieve growth goals, Suzuki (2003), Mohsin et al. (2018), Nurul et al. (2017), Ali et al. (2015), etc.

GDP devices that influence economic fluctuations impact the accounting frauds occurrence, as the unemployment interact with the economic steadiness, therefore the probable reduction in GDP is positively impact the unemployment rate which in turn affect the pressure and opportunity of commission accounting frauds specially in case of absence of personal integrity, and the high fraudster's capabilities, this is matching the findings of Fagerberg, Verspagen and Cani ės (1997) who showed innovation, expansion of technology, undesirable industrial structure (the domination of agriculture), employment, labor supply, unemployment as factors affecting the GDP growth. This study differs from their study by showing unemployment as factors affecting the accounting frauds. Figure 1 is showing the characteristics influencing economic fluctuations and accounting frauds.

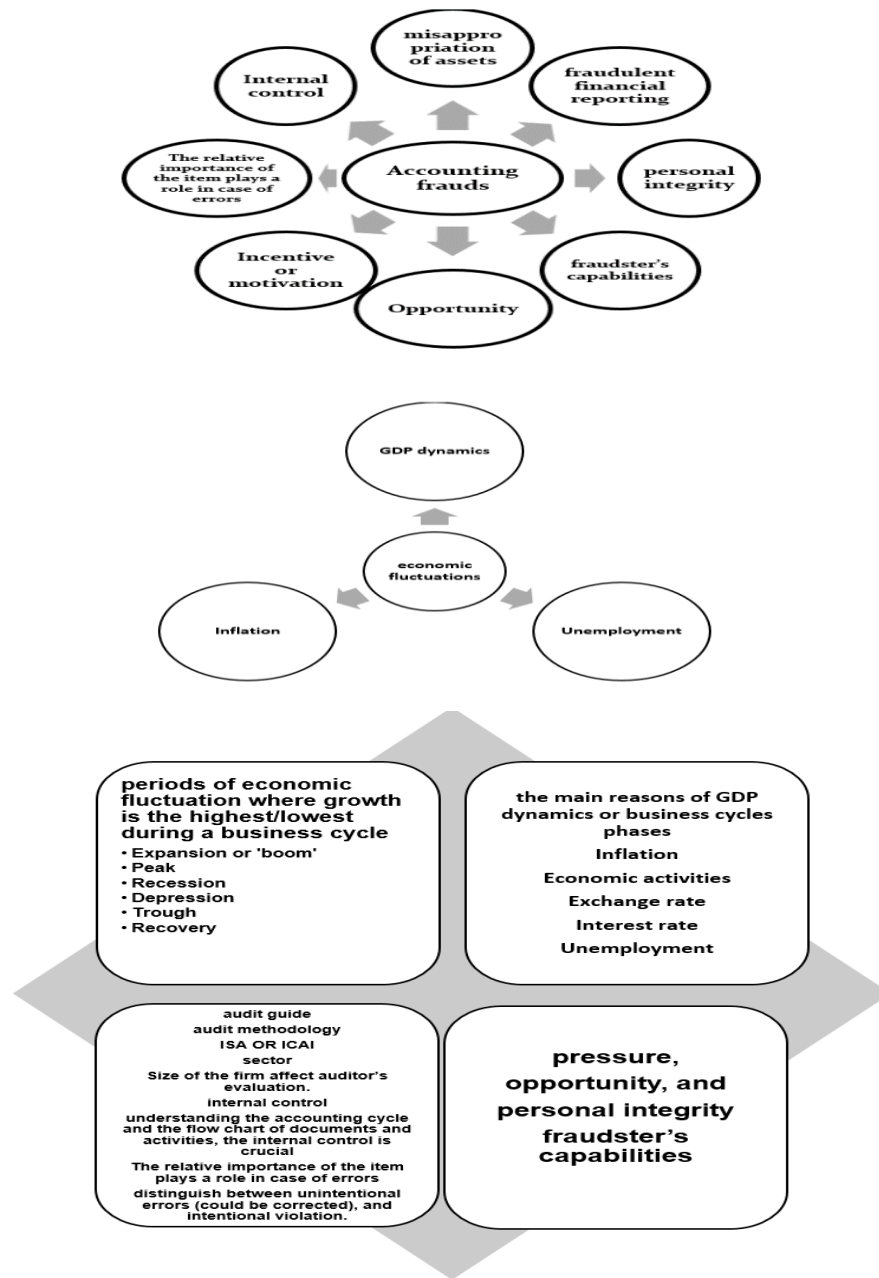


Figure 1. The Characteristics Influencing Economic Fluctuations and Accounting Frauds

7. Limitations and Future Research

This study examined the economic factors influencing economic fluctuations and how accounting frauds happen underneath altered economic fluxes, thus grasping such association will afford economists and investors and external auditors extra insights about the audit risk in PBOs under different levels of GDP. However, there are numerous ECONOMIC roots of business cycles and economic variations like changes in trading strategy, warfare, inflation caused by governmental finance or fears. But these represent non-economic data that is hard to be rationalized by economic theory. Typical macroeconomic theory inclines to illuminate business cycles by a number of mistake and

emphasis on modifying this mistake either by dynamic strategy or by supporting a separate strategy (Raudino, 2016). Thus, it is very hard to capture all the factors influencing the economic fluctuations. However, most of the studies in the literature consider the GDP as the most important factors, in addition to inflation and unemployment.

8. Conclusions and Implications for Project Managers

The global economy has witnessed massive loss due to the fraudulent undertakings therefore, accounting plays a very important role in managing and multiplying assets (which intern affect the development and expansion of any economy). In addition, accounting is considered as the first line defense against deception by controlling the deceitful actions, assuring an environment free from deception, embezzlement, theft, and the insignificant economic growth. Thus accounting contributes directly or indirectly in guaranteeing that the real economic progress is not being hindered. Further, the importance of accounting in economic growth is exemplified by its vital function such (a) the investment appraisal function, (b) the function of preparing financial statements, (c) cost savings and declining contributes to the growth and development of the economy, (d) fraud fighting.

This study enhance the Perception of how accounting frauds happen in different business cycles will afford economists and financiers, shareholders, stakeholders, stockholders and external inspectors of auditing companies an additional visions about the audit risk in PBOs at altered stages of GDP. Therefore, external auditors have to consider economic fluctuations caused by (GDP devices, inflation, unemployment) in the process of assessing audit risks related to frauds themes (pressure, Incentive or motivation, opportunity, fraudster's capabilities personal integrity) in order to avoid negative economic damages.

8.1 Implications

This study contributes to both economic and accounting research by proving findings from an investigation of the elements modifying the economical fluctuation and how these fluctuations might impact the rate of accounting Frauds (AF), with implications for economists and financiers, shareholders, stakeholders, stockholders and external inspectors of auditing companies an additional visions about the audit risk in PBOs at altered stages of GDP.

References

- Bahadir, B., Chatterjee, S., & Lebesmuehlbacher, T. (2018). The macroeconomic consequences of remittances. *Journal of International Economics*. <https://doi.org/10.1016/j.jinteco.2018.01.010>
- Bertomeu, J., & Magee, R. P. (2011). From low-quality reporting to financial crises: Politics of disclosure regulation along the economic cycle. *Journal of Accounting and Economics*. <https://doi.org/10.1016/j.jacceco.2011.08.005>
- Bezemer, D. J. (2010). Understanding financial crisis through accounting models. *Accounting, Organizations and Society*. <https://doi.org/10.1016/j.aos.2010.07.002>

- Chen, Y. J. et al. (2017). Enhancement of fraud detection for narratives in annual reports. *International Journal of Accounting Information Systems*. <https://doi.org/10.1016/j.accinf.2017.06.004>.
- Crawley, M. J. (2015). Macroeconomic consequences of accounting: The effect of accounting conservatism on macroeconomic indicators and the money supply. *Accounting Review*. <https://doi.org/10.2308/accr-50998>
- Ćurlin, T. et al. (2018). Internal fraud in a project-based organization: CHAID decision tree analysis. *Procedia Computer Science*. <https://doi.org/10.1016/j.procs.2018.10.090>
- Dao, M. Q. (2012). Government expenditure and growth in developing countries. *Progress in Development Studies*. <https://doi.org/10.1177/146499341101200105>
- Fagerberg, J., Verspagen, B., & Caniđs, M. (1997). Technology, growth and unemployment across European regions. *Regional Studies*. <https://doi.org/10.1080/00343409750132252>
- Gan, C. et al. (2006). Macroeconomic variables and stock market interactions: New Zealand evidence. *Investment Management and Financial Innovations*.
- Hill, P. L. et al. (2019). Life engagement is associated with higher GDP among societies. *Journal of Research in Personality*. <https://doi.org/10.1016/j.jrp.2018.11.010>
- <https://www.accountantnextdoor.com/role-of-accountants-in-economic-development-and-growth/>
- Jain, D., Nair, K. S. & Jain, V. (2015). Factors Affecting GDP (Manufacturing, Services, Industry): An Indian Perspective. *Studies Pune Annual Research Journal of Symbiosis Centre for Management Studies Annual Research Journal of SCMS*.
- Kassem, R., & Higson, A. (2012). *The New Fraud Triangle Model*.
- Kedia, S., & Philippon, T. (2009). The economics of fraudulent accounting. *Review of Financial Studies*. <https://doi.org/10.1093/rfs/hhm016>
- Kira, A. R. (2013). The Factors Affecting Gross Domestic Product (GDP) in Developing Countries: The Case of Tanzania. *European Journal of Business and Management*.
- Konchitchki, Y., & Patatoukas, P. N. (2014). Accounting earnings and gross domestic product. *Journal of Accounting and Economics*. <https://doi.org/10.1016/j.jacceco.2013.10.001>
- Lyu, C. et al. (2018). GDP management to meet or beat growth targets. *Journal of Accounting and Economics*. <https://doi.org/10.1016/j.jacceco.2018.07.001>
- Mahmood Ali, T., Tariq Mahmood, M., & Bashir, T. (2015). Impact of Interest Rate, Inflation and Money Supply on Exchange Rate Volatility in Pakistan. *World Applied Sciences Journal*. <https://doi.org/10.5829/idosi.wasj.2015.33.04.82>
- Nurul Aini Raja Aziz, R., & Azmi, A. (2017). Factor Affecting Gross Domestic Product (GDP) Growth in Malaysia. *International Journal of Real Estate Studies*.
- Ong, T. S. (2013). Factors Affecting the Price of Housing in Malaysia Journal of Emerging Issues in Economics, Finance and Banking (JEIEFB). *Journal of Emerging Issues in Economics, Finance and Banking*.
- Raudino, S. (2016). The Theory of Economic Development. In *Development Aid and Sustainable*

- Economic Growth in Africa*. https://doi.org/10.1007/978-3-319-38936-3_2
- Suh, J. B., Nicolaides, R., & Trafford, R. (2019). The effects of reducing opportunity and fraud risk factors on the occurrence of occupational fraud in financial institutions. *International Journal of Law, Crime and Justice*. <https://doi.org/10.1016/j.ijlcj.2019.01.002>
- Suzuki, T. (2003). The accounting figuration of business statistics as a foundation for the spread of economic ideas. *Accounting, Organizations and Society*. [https://doi.org/10.1016/S0361-3682\(02\)00033-8](https://doi.org/10.1016/S0361-3682(02)00033-8)
- Wagenhofer, A. (2011). Towards a theory of accounting regulation: A discussion of the politics of disclosure regulation along the economic cycle. *Journal of Accounting and Economics*. <https://doi.org/10.1016/j.jacceco.2011.08.006>
- Wang, Y., Ashton, J. K., & Jaafar, A. (2019). Does mutual fund investment influence accounting fraud? *Emerging Markets Review*. <https://doi.org/10.1016/j.ememar.2018.12.005>
- Weil, D. N. (2007). Accounting for the effect of health on economic growth. *Quarterly Journal of Economics*. <https://doi.org/10.1162/qjec.122.3.1265>
- Xu, Y., Zhang, L., & Chen, H. (2018). Board age and corporate financial fraud: An interactionist view. *Long Range Planning*. <https://doi.org/10.1016/j.lrp.2017.08.001>

Note

Note 1. The big four audit firms are the four biggest professional services networks in the world, offering audit, assurance services, taxation, management consulting, advisory, actuarial, corporate finance and legal services. They handle the vast majority of audits for public companies as well as many private companies.