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ACCOUNTING MANIPULATIONS IN FINANCIAL REPORTS

Summary: *This paper seeks to point out the manipulations faced by investors and other users of financial statements when making business decisions. Accounting fraud, embezzlement and financial crime are an increasingly serious global problem. Numerous financial frauds from the past and the beginning of this century have seriously damaged the trust of a large number of users of financial information contained in financial statements. Decisions made by investors and other users of financial statements on the basis of incorrect financial information. Inaccurate financial statements give a false picture of the company's returns and financial situation.*
The methods used in the research are descriptive method and survey questionnaire. The paper seeks to present the forms of accounting manipulations that occur in the financial statements and the consequences that may occur for investors when making business decisions.
The paper seeks to make a theoretical contribution, and expand the existing fundamental knowledge in this area, and show what are the consequences for investors when making business decisions based on financial statements of economic entities. During the research, scientific collection, processing, synthesis of appropriate theoretical and practical data were performed.

Key words: *fraud, error, accounting manipulation and financial statements*

JEL classification: *M40, M41, M49*

INTRODUCTION

The financial crisis and trends in corporate governance have led to a sharp increase in the number of financial frauds, which has jeopardized the confidence of a large number of users in the financial information presented in the financial statements. Due to that, the great battle of countries around the world was forced to find an answer to the mentioned scandals, the basis of which are the mentioned scandals, that is criminal acts, enacting new regulations and strengthening the regulatory framework to encourage companies to strengthen their own controls.
There have always been frauds in accounting, followed by financial collapses, and lately they have been appearing in increasing numbers and with harder consequences for all of us. Research on financial fraud shows that it can be different depending on the region, the scheme of fraud, the characteristics of perpetrators and victims who suffer damage, but the essence remains very similar. The biggest frauds of users of financial statements and primarily investors were committed by presenting false, ie falsified financial statements.

Schemes of misappropriation of funds, false financial reporting, corruption and other types of crime are becoming more complex and complicated every day for their preventive prevention and elimination.
Users of financial statements must have financial statements that fairly show the financial position, financial performance and cash flows of the observed entity, or those financial statements that fairly (fairly) show the effects of transactions and other events in accordance with the definitions and criteria for recognition of assets, liabilities, income and expenses, defined by the Framework for the preparation and presentation of financial statements. With the development of the world market, there is a sharp increase in financial fraud, which reduces the objectivity and reliability of financial reporting.

1. BASIC DETERMINANTS OF SCAMS IN FINANCIAL STATEMENTS

The term fraud is used to describe acts such as deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, giving inaccurate information, concealment of material facts. Fraud is a deliberate deception committed to achieve a specific goal, or to harm another person. International Standards on Auditing define fraud as "the intentional act of gaining an unfair or unlawful advantage by cheating, committed by one or more persons from management, the supervisory board, employees or a third party."
According to Aljinović Barać and Klepo, “accounting manipulations” can generally be defined as the manipulation of accounting numbers that is not in line with the principles of true and fair presentation (Aljinovic Barac and Klepo 2006, 275).
Fraud is a series of illegal, dishonest, knowingly committed activities, which lead to a certain goal (theft, bribery, embezzlement, etc.). They consist of the deliberate and deliberate preparation of documents, facts, information and situations in order to create the preconditions for someone to be encouraged to believe in untruths and to act in accordance with misrepresentations of facts in designed situations and circumstances.
The unique definition of the concept of fraud, despite many attempts at domestic and foreign literature, has not been reached, and the causes should be sought primarily in three basic problems:

- the first problem, the diversity of defining an act as fraud or socially acceptable in different national criminal legislations. This means that one state can define an act in its criminal legislation and other acts as fraud, while for another national legislation such acts represent a socially acceptable phenomenon;
- another problem in defining the term fraud is the use of various synonyms and related terms to define the same or similar phenomena; i
- the third problem, the lack of a unified classification of types and forms of fraud in economic processes.

Regardless of the appearance, frauds are usually characterised by several important elements:
1. incorrect presentation of facts important for making business decisions;
2. the existence of individuals' awareness that the presented data are false;
3. the person receiving the information treats it as reliable and relevant to the business
decision making;
4. the occurrence of damage in business as a consequence of all the above.

Economically, financial fraud is becoming more common serious problem and effective detection of accounting fraud It has always been an important but complex task for accountants (Sharma and Panigrahi 2012, 37).
The key objective of financially prepared financial statements is to make the financial statements comparable to those of other companies. This is even more important for

solid and correct comparison of companies in the same industry. A meaningful comparison of companies in different industries requires that financial statements be prepared in accordance with local generally accepted accounting principles (Papik and Papikova 2020, 64).

2. DIFFERENCE BETWEEN SCAMS AND ERRORS IN FINANCIAL STATEMENTS

In order to understand the purpose and significance of fraud, it is necessary to make a distinction between fraud and mistakes. Although their consequences are the same, the presentation of incorrect information, there are significant differences between errors and fraud. The main difference is that the condition for the existence of fraud is the conscious intention of the individual in the direction of achieving individual goals.

Errors involve unintentional actions and procedures that result in inaccurate disclosures. In the relevant accounting literature, errors resulting from:

- omissions in the collection or processing of documentation in the process of preparing financial statements;
- the application of inadequate accounting estimates leading to overestimation of facts or misinterpretation of facts;
- misapplication of accounting principles regarding amounts, types and
- manner of presentation or publication in the financial statements.

Damage from fraud can never be accurately determined because many have not even been discovered. Therefore, these damages can only be assessed on the basis of certain indicators. Frauds are usually classified into three groups:

- corruption,
- alienation of property and
- falsifying financial statements.

Fraud, unlike error, is characterized by the conscious intention of those responsible for compiling and disclosing financial statements to "creatively " present data to achieve some specific goals (showing increased business effects or concealing losses) (Stancic and Dimitrijevic and Stancic 2013, 1884).

The following table shows three types of fraud with the percentage incidence and the mean of individual damages detected in the United States.

Table 1. Classification, percentage of frequency and mean value of damage from fraud (ACFE 2018)

Type of scam	**Percentage of frequency**	**Mean value of individual damage**
Corruption	33,40%	$ 250,000.00
Alienation of property	86.70%	$ 120,000.00
Forgery of financial statements	7.60%	$ 1,000,000.00

Table 1 shows that the alienation of property is the most common form of fraud, and that falsifying financial statements is the most dominant form of fraud in terms of the average value of individual damages.

Data indicating the most common perpetrators of fraud, the number of perpetrators of fraud and its position in the company are shown in the following table:

Table 2. Overview of the most common executors (ACFE 2018)

Category	Type of executor
The perpetrator of the fraud	Employees (41.60% of fraud cases)
Number of perpetrators of fraud	One perpetrator (58.00% of fraud cases)
The position of the perpetrator of fraud in the company	Employed in company accounting (22.00% of fraud cases)

Data given in Table 2 indicate that the largest number of frauds, 58.00% were committed by individual perpetrators, while 41.60% of frauds are committed by employees of the company and 22.00% of perpetrators of fraud are persons employed in accounting.
Incorrect information and statements in the financial statements may be the result of fraud or error. International Accounting Standards define the terms of peas and fraud. Errors may arise in recognizing, measuring, presenting or disclosing elements of financial statements. Financial statements are not in compliance with International Financial Reporting Standards if they contain either material errors or insignificant / immaterial errors that were made intentionally, in order to achieve a certain presentation of the financial position, financial performance and cash flows of the entity (International Accounting Standards Board, 2009). Thus, an error is an unintentional omission or misstatement that may include mathematical errors, misinterpreted facts, omissions or misapplication of accounting policies and auditing standards, and so on. On the other hand, fraud is deliberate cheating, a false act of deceiving certain users of information.
Key difference between errors and fraud is the lack of intent to enter incorrect information in the financial statements, omit an amount or publish incorrect information. However, the big problem of categorizing irregularities into mistakes or frauds is the difficulty of determining the existence or absence of intent.
Errors can occur:

1. During the collection or processing of documentation in the process of making financial reports;
2. Poor accounting judgment leading to overestimation or miscalculation interpretation of facts;
3. Misapplication of accounting principles regarding amounts, types and by the way of presentation and publication (Golden and Skalak and Clayton 2006, 35).

The gross margin indicator is the most important for classifying a company in terms of material error in the financial statements (Beneish 1999, 24-36).

3. TYPES OF MANIPULATIONS IN THE FINANCIAL STATEMENTS

Accounting manipulations in corporate "financial statements" are multi-year; they have happened in all epochs, in all countries and have affected millions of corporations (Madan 2016, 22-45).
In practice, the abuse of creative accounting occurs in the following forms:

- Earnings management,
- Violent (aggressive) accounting,
- Earnings smoothing and
- Forgery of financial statements.

Management involves the active manipulation of earnings with certain goals encouraged by management, analysts or accounting in order to harmonize the presentation of earnings trends. It is characterised by a decrease in profits during the good years of business and a shift to a worse period in order to harmonize the picture of success.

Violent or aggressive accounting implies excessive and deliberate selection and application of accounting principles and procedures in order to obtain the desired result (for example, higher or lower profit). In such activities, the norms allowed by the standards are often exceeded or the provisions of individual standards are applied even in cases when there are no justified reasons for their application. One of the most common procedures of aggressive accounting is aggressive capitalization and overemphasized revaluation. Extremely aggressive accounting implies completely incorrect postings that are not based on accounting standards or rules of the profession. Examples of such activities are additional debiting of expenses with the entry of fictitious items on the demand side, reduction of the provision item to increase revenue, mutual closure of items of customers and suppliers without basis in business events and others.

Earnings smoothing is one of the forms of earnings management that aims to unify the presentation of profit or income for several consecutive years in order to gain the impression of constant growth and avoid fluctuations in business results.

Falsifying financial statements involves intentional errors, rewriting financial statements, and issuing fraudulent documents to shape the desired outcome. Fraudulent reports are criminal acts that result in numerous accounting scandals when manipulations are discovered. Examples of such actions are numerous, and some of the most common are issuing fake invoices, selling "black", charging expenses on expenses or stocks, fictitious sales to affiliated companies, fraudulent travel orders, hidden profit payments, spending company funds for private purposes and many others.

False financial reporting is a criminal act that deceives users of financial statements, in order to make future decisions in favor of the legal entity that created the financial report, and not in favor of users of information from the financial report (usually investors, creditors and/or government) (Spahic 2014, 542).

Bhasin (Bhasin 2016, 199) recommended that “all types of accounting manipulation should be legally recognized as a serious crime, and accounting bodies, courts and regulatory bodies authorities must adopt exemplary sanctions to prevent such unethical practices.”

4. REASONS AND MOTIVES FOR MANIPULATIONS IN THE FINANCIAL STATEMENTS

Preparation of financial statements and publication of accounting information are common management activities that, in order to protect investors, are subject to external audit. There is a fine line between the manipulations of management through the application of selected alternative accounting policies (legal accounting manipulations) and the manipulations that try to deceive investors (illegal accounting manipulations). The main motives for the application of creative accounting are the following:

1. Using flexibility within accounting regulatory frameworks to create a true and fair view of the reporting entity;
2. Using flexibility within accounting regulatory frameworks to create representations appropriate to the reporting entity;
3. Using flexibility within, and often at the border of, regulatory accounting frameworks to create the most favorable picture of the reporting entity;
4. Exceeding regulatory accounting frameworks to create a false image of the reporting entity.

Creating a true and fair view in the financial statements is the primary purpose of creative accounting and is encouraged as such (the positive side of creative accounting). The stated motives under 1 and 2 may be questionable, often on the border of regulatory accounting frameworks in relation to the theoretical and practical application of true and fair view, but cannot be disputed because they are within the legally permissible limits where regulations are dubious, unclear, flexible in estimates these can be interpreted differently. An example of this may be the use of various valuation techniques that may materially affect the financial statements in the financial statements. Creative accounting is often used here in terms of revenue recognition, provisions, accruals, write-offs of receivables and inventories, revaluation of fixed assets and the like. The last motive crosses the border of regulatory accounting frameworks because it serves to create a false image of the subject and belongs to the criminal area of application of creative accounting. There are naive accounting procedures in this area that are easy to detect, but also very complicated procedures that are difficult to detect and prove, and are most often detected only when there is a complete breakdown in business. Creating the most favorable image of the reporting entity has strong motives in management, and management for many reasons seeks to show good and stable business with upward trends in business results. The most common reasons for manipulating financial statements are as follows:

1. Reducing fiscal and regulatory burdens - companies aim to reduce the reporting result due to lower taxes, and use those accounting policies that will achieve this goal in the short term;
2. Striving for the cheapest possible capital increase - we try to present the best possible financial situation by showing the lowest possible indebtedness due to: borrowing from banks with more favorable conditions for raising loans (lower interest rates, longer repayment period, etc.) and bond issues, and more successful issues action;
3. Avoiding breach of contract with creditors - to protect their interests, creditors impose financial restrictions on debtors (eg banks impose maximum debt ratios, minimum interest rate ratios, minimum rates of return, minimum rates of return, etc.). If the debtor fails to maintain the agreed limits, the terms of the credit agreements may be re-negotiated, probably to the detriment of the debtor. Based on that, the debtor has a need for manipulations, e.g. in balance sheets or other reports to maintain agreed limits;
4. Increasing the wealth of management - salaries, fees and discretionary investments of management (making some investment decisions without convening a general meeting) are directly related to current and retained earnings of the company. Because of this, management always has a need to announce higher profits. This is especially important if management can participate in the net profit according to the bonus plan when it is above the established minimum level. Also, the management can be stimulated to show as little profit as possible in one year in order to achieve the minimum net profit next year, which allows him to participate according to the bonus plan. If a new Management Board is appointed, it is in their interest to show as little profit as possible in the short term, so that in the future they can more easily, without much effort, show a higher result and thus gain a high reputation.

High pressure from management by investors and the environment leads managers to apply creative accounting.

A survey conducted by Erickson, Hanlon, and Maydew on a sample of 27 firms found that these firms were willing to pay several million USD in income taxes on non-existent wages, or unrealistically increased wages (Erickson and Hanlon and Maydew 2004, 114).

Many studies on the motives of management for compiling false financial statements have shown that the most common reasons for fraud are:

1. Personal motives
    - salary increase;
    - earning a bonus on earnings;
    - increase in share price;
    - job insurance;
    - personal satisfaction.
2. Capital market expectations:
    - compliance with analysts' expectations;
    - achieving a uniform (even) result;

- achieving the set norms of income and results.

3. Specific circumstances:
   - credit and indebtedness management of the company;
   - issue of shares or other securities;
   - mergers with other companies;
   - formation of new management;
   - "Anticipation of better times".

Personal motives - serve to achieve the personal goals of an individual due to financial difficulties or pure desire for as much money as possible. Increase in earnings - in many cases, managers get an increase in their income if they meet certain goals, whether it is the level of sales or a certain level of profit. This is one of the important motives for compiling false financial reports and committing fraud.

Achieving a bonus on earnings - as well as the previous motive, and with this motive, the realization of the bonus depends on the results, which forces many managers to "beautify" the financial statements using various manipulations.

Capital market expectations - making a profit is in the hands of managers. However, the market positioning and value of the company through the share price is in the hands of capital market analysts. Making a profit that is not accompanied by an increase in the share price is a great disappointment and a loss of a large amount of money for shareholders.

Compliance with analysts' expectations - in countries with a developed financial market (USA, UK), listed companies are expected to publish financial reports annually, semi-annually and sometimes quarterly. Based on the data obtained from the financial reports, analysts estimate the future development and profit of the company, based on which it positions itself on the financial market and forms the share price. Therefore, it is important for managers to meet the expectations of analysts, which sometimes forces company managers to apply manipulations in the financial statements in order to achieve the level of profit that is expected of them.

Achieving a uniform (even) result - despite the pressure for companies to make as much profit as possible from year to year, the company's management must be aware that a sharp rise or fall in business results can cause a negative market reaction and lead to falling stock values. Precisely because of this, many managers use manipulations in the financial statements to show a steady growth of business results over time, which would indicate the stability of the company's business, which would be reflected in the share price and value of the company.

Specific circumstances - certain circumstances in business, capital market or specific political and social circumstances may force managers to use manipulations in the financial statements.

Credit and indebtedness management - many companies today operate by borrowing from commercial banks, the state, other financial institutions and the financial market. Every borrowing brings with it certain obligations. If the company starts to operate less during the period for which it is indebted, which is manifested in lower income and profit, creditors increase the interest rate on future borrowed funds in order to protect their capital and their interests. In such situations, managers very often manipulate the data in the financial statements in order to show successful business and avoid additional interest costs and other financial expenses.

Issuance of shares or other securities - in situations where the company first issues its shares on the stock exchange or when it issues other types of securities (bonds) to raise additional capital, managers resort to manipulation to show better business results.

Merger with other companies - one of the stages of company development is merger with other companies. The reasons for mergers can be various, from preventing bankruptcy, eliminating competition, to creating a monopoly on the market.

However, in the negotiations on the takeover or merger, the financial position of the company is extremely important. A liquid company that is not burdened with debts, whose claims are due in the shortest time and whose shares are very well listed on the stock exchange, and a company with

a completely opposite financial picture of the business will not be treated the same. That is why manipulation of financial statements is one of the methods used by company managers to show the best possible financial situation in the company and thus secure a secure position in negotiations on takeovers or mergers with other companies.
Forming a new management - when there is a change in the management team in the company, the new team wants to provide itself with the best possible starting position. One way is to show the previous leadership as bad as possible. This can be useful for new management for two reasons: the first is to provide themselves with as much space as possible due to the poor results of the previous management structure, and the second is to provide themselves with the lowest possible profit rate with which their business will be compared later;
"Waiting for better times" - if the company is in trouble, the management often resorts to fraud in the financial statements in order to show stable business and save the company for some better times that he estimated to be coming. In this way, the management creates a certain reserve in the business in order to withstand the current difficulties, hoping that the future will bring new opportunities in the business and thus higher profits.

5. METHODS OF MANIPULATION IN FINANCIAL STATEMENTS

The application of creative accounting almost always results in losses in the market value of companies. The logical consequence is distorted financial statements followed by the transfer of profits between periods or companies (Kaparavlovic 2011, 164).
Depending on the goals of the entities, methods of manipulating accounting information, ie financial statements, will be determined. Based on the previously presented reasons, it is evident that the goals of manipulation can be numerous, among which the following are most often systematised:
a) Short-term increase in profit.
b) Reduction of profit variation and
c) "Strengthening" the balance sheet.
Short-term profit increases can be achieved through various methods of recognizing income in advance or deferring expenses, which can be achieved by manipulating accounting policies (eg recognizing future income into current income, extending the life of fixed assets, etc.) and "real business decisions" speed up the collection of trade receivables or reduce the collection deadline, increase final inventories, etc.) Profit variations are achieved by manipulating accounting policies primarily on the basis of value adjustments and cost provisions. Variations in profits are successfully controlled in banks by allocating costs when classifying placements into risk groups, which affects the amount of banks' net profit. On the other hand, in the real sector, management controls profits through contingency provisions and asset impairment policies.
Strengthening the balance is achieved by accounting policies (overestimation of assets or underestimation of liabilities) with the help of various methods of valuing assets and liabilities, and real business decisions (eg using leasing as off-balance sheet financing, issuing preferred shares, etc.). Assessing assets is the most common method of strengthening balance sheet aimed at increasing profit in the short term. The same effect is achieved by underestimating liabilities or off-balance sheet financing. Recently, there has been a growing interdependence between strengthening or weakening the balance sheet and manipulating the financial markets. Manipulations encourage the rise and fall of securities prices, which directly affects their subsequent valuation at the balance sheet date.
The general classification of manipulation methods to increase income in the income statement is:

1. premature recognition of sales revenue;
2. increase in interest income;
3. inclusion of non-operating income;

4. treating loans as sales revenue;
5. "Swot" jobs (exchange of goods);
6. non-matching of revenues and expenditures.

Premature recognition of sales revenue is perhaps the most common form of revenue manipulation. The basic question is when to recognize the sale and thus the revenue generated from the sale. According to IAS 18 - Revenue, revenue from goods sold should be recognised when all of the following conditions are met:

- the company has transferred to the buyer significant risks and rewards of ownership of the goods;
- the enterprise does not reserve the right to continue to manage the goods to the extent normally associated with the ownership of the goods as well as the actual control over the goods sold;
- the amount of revenue can be measured reliably;
- the economic benefits associated with the transaction are likely to flow to the enterprise;
- the costs incurred or to be incurred in relation to that transaction can be measured reliably.

According to the interpretations of the International Financial Reporting Standards, in accordance with the above preconditions, revenue is recognised if the seller delivered the goods and if invoicing was performed, as well as if it was agreed that the goods are with the seller until the goods are taken over. The essence of the manipulation, related to the premature recognition of income, is that the perpetrator, in order to misrepresent the amount of realized income, usually before the end of the reporting period, invoices the sold goods that have not yet been delivered, and in which the buyer has not passed all the risks and benefits of its purchase, nor an agreement with the buyer the same at the seller until the time of collection. There are numerous examples of companies that recognized sales revenue too early. Midisoft Corp. during 1994, it claimed that it recognized its sales revenue at the time the products were shipped and sent to the customer.

Increase in interest income - for some companies, the source of income is interest on investments in company shares, bank shares, etc. The UK-based company Polly Peck is an example of a company that reported high income in the financial statements by manipulating interest income.

Inclusion of non-operating income - many companies are trying to include in regular sales revenue and sales generated by a single sale of assets (one-off sales);

Treating loans as sales revenue - although loans and revenues are two completely different categories, some companies have treated loans as revenues. For example, some companies treated money lent to customers to buy their products as income, or lent money in advance.

certain transactions and treated those loans as income.

"Swot" jobs (swaps) - are jobs in which companies exchange good for another good. Manipulation occurs when two companies exchange their products with each other and then present that exchange as the sale of goods. Enron and Qwest thus exchanged $ 500 million worth of products in 2001. Enron reported this replacement as a sale and reported sales revenue on that basis. Non-matching of income and expenses - according to International Financial Reporting Standards "income and expenses related to the same transaction or other event are recognized at the same time, and this process is usually expressed as a meeting of income and expenses". The standards also state that "revenue cannot be recognized when expenses cannot be measured reliably, and in such circumstances any compensation received in advance for the sale of goods is recognized as a liability". An example of such manipulation can be the case when the management of a company decides to show the realized sales revenues in December of the current year, but the costs incurred in this transaction are shown in January of the following year, ie in the next accounting period. The result of intentional non-compliance with accounting standards in this case would be an overestimation of the company's profit in the period in which revenues are shown and also an underestimation of profits in the following period when costs are shown.

The methodological approach to researching the quality of financial statements, including factors of incentives and motives, includes ways of researching and analyzing the factors of accounting manipulation in financial statements. In this regard, it is possible to identify three basic methodological approaches to the study of accounting manipulations in financial statements:

1. research of accounting manipulations based on accrual quantities;
2. research of accounting manipulations based on financial and non-financial indicators and
3. alternative approaches in the research of accounting manipulations (Gabric and Miljko 2018, 11-12).

7. APPLICATION OF ACCOUNTING MANIPULATIONS IN COMPANIES IN THE REPUBLIC OF SRPSKA

False financial reporting occurs as a result of inaccurate disclosures in the financial statements. In practice, most manipulations in the financial statements are realised by manipulating expenses and income in the Income Statement and by manipulating liabilities and assets in the Balance Sheet. Financial statements prepared using creative accounting do not reflect the true value of the company, they may contain hidden losses or latent reserves. This is not immediately visible, but it jeopardizes the credibility of the financial statements as well as the information in them (Halilcevic 2019, 6).

False financial reporting can manifest itself in the form of:

a) showing poor financial position and lower financial position results and

b) showing a better property and financial position and a higher financial result.

With the development of society, various forms of economic crime appear in Bosnia and Herzegovina, and in the Republika Srpska, which can be classified into the following groups:

1. criminal acts in the field of fiscality (direct and indirect taxes), laundering of illegally obtained money and objects, destruction of trade books,
2. counterfeiting of money and securities,
3. criminal acts in the field of market competition (violation of equality in business operations, creation of monopolies and unfair competition),
4. acts related to bankruptcy and privatization (abuse of bankruptcy, bankruptcy proceedings, preparation of false balance sheets, incorrect estimates, etc.),
5. criminal acts related to production and trade (illicit storage of goods, illicit trade and production, deception of customers, violation of industrial property rights, unauthorized use of the company),
6. criminal acts related to business operations (unscrupulous business operations in the economy, abuse of authority in the economy, concluding a harmful contract, disclosure and unauthorized acquisition of business secrets).

The most common forms of tax evasion in the direct tax system in Bosnia and Herzegovina and the Republika Srpska entity are:

- concealment of turnover and turnover of unregistered goods,
- concealment of margins (earnings),
- false representation of costs,
- showing payment for non-existent services (fake consulting services, services of intermediary agencies, etc.),
- false calculations,
- false tax returns,
- false price leveling (reduction of prices after realization),
- incorrect presentation of net salary to employees,
- payment in cash without records in the business books,
- increase of non-taxable payments and decrease of taxable payments to employees,

- undeclared work, etc.

Indications that indicate possible illegal actions of taxpayers:

- the legal entity has several transaction accounts in commercial banks that do not have branches / branches in the place of business of the legal entity or operates through non-resident accounts abroad,
- a legal entity declares but does not pay tax liabilities,
- the legal entity does not own or lease business premises or has formally leased business premises that are empty and not used,
- the legal entity does not have employees, and shows that it has a large turnover,
- the legal entity does not pay any usual services / costs (telephone, water, electricity, garbage collection, utility tax, internet, etc.),
- the legal entity does not pay salaries, taxes and contributions for employees,
- the legal entity is owned by a foreign citizen who is also a director and who does not reside in BiH,
- the owner and responsible person in the legal entity is in his late years,
- the legal entity does not have organized bookkeeping (or a contract with a bookkeeping bureau) and the registered office of the legal entity often changes,
- documents (invoices, delivery notes, various letters, etc.) of the legal entity are without a memorandum with basic information (headquarters address, place, telephone number, e-mail address, transaction account number, etc.),
- legal entities demand tax refunds,
- a legal entity that has just been established shows high input VAT, and little or no output VAT, and is not an exporter,
- cash payment (in cash) of invoices with large amounts,
- the owner and the responsible person in the legal entity have disproportionate assets in relation to the presented income / salaries / dividends.

The most common forms of tax evasion in the system of indirect taxes are:

- fake (fictitious) export (goods have not been exported, and the business books show exports due to the fact that the export is exempt from VAT, ie an invoice with a zero rate has been made),

- issuing false tax invoices to non-existent companies with reduced output VAT,

- obtaining input invoices from non-existent companies in order to increase input VAT in order to reduce the final VAT liability by breaking the total input and total output VAT,

- presentation of lower value of goods (especially during import) in order to reduce the basis for VAT calculation,

- false presentation of subscription / credit in monthly VAT returns due to unfounded request and realization of VAT refund,

- unfounded presentation of input VAT to which there is no right to deduct,

- incorrect and incomplete keeping of business books, which results in higher input than output VAT, so that the taxpayer has no obligation to pay VAT and is in a situation to repay the tax credit or the VAT liability is small (symbolic) in relation to real,

- fraud in the field of traffic (showing reduced or increased traffic),

- planning of illiquidity and insolvency so that through conscious, ie. intentionally caused insolvency, ie insolvency, the taxpayer is in a situation where he cannot settle VAT liabilities that his customer has already deducted as input VAT,

- "phantom company" (inaccessible / fictitious) which does not perform any turnover, but submits VAT returns in which it shows a loan / subscription in a large amount, after which it requests a refund or shows small subscriptions and successively imperceptibly makes refunds,

- inclusion of a "phantom / inaccessible company" in the chain of trade between two real companies, one of which is a customer and the other a supplier, so that this "phantom company" serves as a means of reducing VAT liability,
- "phoenix companies" that are short-lived, make big transactions, do not pay VAT and disappear,
- "fraud in a circle" ("carousel"), suitable for goods that are small in size and whose value is large, where the goods circulate through several countries and eventually end up in the paper at the beginning, with a break in the middle with an "unavailable company" on which VAT liabilities remain,
- Avoiding companies from registering as VAT payers, even though they make large transactions that require them to register.

VAT fraud can be realised in two ways:

1. unjustified increase in input VAT;
2. unjustified reduction of output VAT.

Unjustified use of input VAT (fake invoice from a fictitious company, withdrawal of money from legal cash flows based on fake input invoice, preparation and use of fake invoices for legalization of illegally acquired goods, legalization of money based on making fake output invoice - reduction of tax base, new (newly registered) companies require the assignment of a VAT number for the purpose of unjustified VAT refund or for the purpose of enabling another to evade tax evasion - tax evasion.

All the aforementioned criminal offenses, in principle, are reduced to tax evasion, ie tax evasion or fraud.

Tax and contribution evasion exists in those cases when the taxpayer conceals data related to the amount of turnover, income, expenses, etc., through business books and all other data in order to hide or reduce or avoid tax liability.

Tax fraud exists in those cases when the taxpayer actively takes actions to defraud, ie avoid tax liabilities, such as false tax returns, which allows him to avoid actual tax liabilities. The most drastic and dangerous cases are false VAT returns in which the submitter of such returns directly, from the account of the ITA BIH, knowingly "withdraws" funds without any legal basis (funds paid in the name of VAT from regular taxpayers).

All normal statutory audits should contain some elements for forensic investigation, as evidence of fraud can be easily detected if the adequacy and consistency of control mechanisms are assessed in detail (Eme 2011, 27).

The focus of forensic accounting is to identify and review fraudulent transactions to determine the true intent of the company executor. Such a review may take the form of a document review, interviews, examination of electronic documents, etc. (Peterson 2015, 63).

Perols (Perols 2011, 23) indicates that six independent variables to predict fraud detection are: auditor turnover, total discretionary accounts, grand auditor, receivables, meeting or exceeding analysts 'forecasts and unexpected employee productivity.

8. RESULTS OF EMPIRICAL RESEARCH

The information obtained as a result of the empirical research was obtained through a questionnaire among internal auditors, heads of financial departments and officials in the financial and accounting sector. Most of the questions are closed: direct questions, questions with offered enumeration answers, and questions with offered intensity answers. Respondents were asked to express their opinion on potential reasons that negatively affect corporate governance in companies, the role of forensic accounting and forensic audit in detecting fraud and criminal acts, the need for its introduction and the impact on the scope and frequency of financial fraud and crime in the Republic of Srpska (Vukovic Perduv and Babic and Ceklic and Ceklic 2021, 55).

Empirical research was conducted through a questionnaire designed as a segment of research on the needs and possibilities of better financial reporting of economic entities in the Republic of Srpska.
To achieve the objectives of the research, data collection was performed from primary sources (field research) and secondary sources (desk research). The collection of primary data was performed by the survey method using a questionnaire.
The survey questionnaire consisted of questions that provided information on the attitudes of individuals about key issues in the public sector.
The research included:
1. professional auditors who have completed the questionnaire and whose views are the subject of research;
2. professional accountants who, by filling in the questionnaire, expressed their views subject of research;
1. persons employed in economic entities and institutions in other jobs.

The results of the survey obtained through the survey are shown in the table.
To the question: "How much experience do the respondents have in performing accounting and / or auditing work, the results of the survey, from the aspect of the application of the questionnaire, show the following:

Table 3. Experience in performing accounting and / or auditing work (Authors 2022)

The answer	Number of respondents	% of respondents
YES	51	89.50%
NOT	6	10.50%
Total:	**57**	**100.00%**

Out of the total number of respondents, 89.50% have experience in performing accounting and /or auditing work, and 6 respondents, ie 10.50% do not have experience in the field of accounting and auditing because they are engaged in other professional work.
According to the review of the function performed by the respondents employed within the organizations, the results of the survey questionnaire show the following:

Table 4. Overview of respondents according to the function they perform within the organization (Authors 2022)

Function within the organization	Number of respondents	% of respondents
Management	8	14.00%
Internal auditor	9	15.80%
An accountant	31	54,40%
Staff	7	12.30%
The others	2	3.50%

The largest number of respondents, 54.40% (31) perform the duties of an accountant within the organization, then 9 (15.80%) respondents are engaged in the work of internal auditor. The managerial role is played by 8 respondents, ie 14.00%, while 7 persons, ie 12.30% declared themselves as employees in the organization and 2 persons (3.50%) perform another function in the organization.

Respondents presented themselves in the questionnaire to which type of organization they belong, which is shown in Table 5.

Table 5. Type of organization to which the respondents belong (Authors 2022)

Type of organization	Number of respondents	% of respondents
Public	24	42,10%
Private	33	57,90%
In total:	**57**	**100.00%**

33 (57.90%) respondents who work in private organizations participated in the research, and 24 (42.10%) respondents are employed in public administration.
Which public organizations employ public sector respondents is presented in the following table:

Table 6. Overview of respondents employed in various public organizations (Authors 2022)

Type of public organization	Number of respondents	% of respondents
Public company	11	35,50%
Local self-government unit	3	9.70%
Institution at the local level (ministries, administration, directorate)	8	25.80%
Institution at the state level	9	29,00%
In total:	**31**	**100.00%**

Of the total number of respondents who are engaged in public organizations, and who participated in the survey using a questionnaire, 11 respondents or 35.50% are employed in public companies and 3 respondents (9.70%) are employed in the local government unit. 9 (29%) respondents are employed in institutions at the state level, while 8 and 25.80% of respondents are employed in institutions at the national level.
The answers to the question: "What is the structure of organizations according to the amount of income in which the respondents are employed" are given in Table 7.

Table 7. Structure of organizations by amount of income (Authors 2022)

Amount of income	Number of respondents	% of respondents
up to 1,000,000.00	21	37,50%
from 1,000,000.00-5,000,000.00	13	23.20%
over 5,000,000.00	22	39,30%
In total:	**56**	**100.00%**

As shown in Table No. 7, the largest number of respondents, 22 and 39.30%, are employed in organizations with incomes over 5,000,000.00 KM. Work in organizations with an income of up

to 1,000,000.00 KM was expressed by 21 respondents or 37.50% of the total number of respondents using a questionnaire. The number of respondents who are engaged in organizations that generate income in the amount of 1,000,000.00 KM to 5,000,000.00 KM is 13 or 23.20%. One respondent did not answer the question.
The results of the respondents' answers to the question: "Which industry does your organization belong to" are shown in the following table:

Table 8. Structure of respondents by activity of the organization (Authors 2022)

Agricultural branch	**Number of respondents**	**% of respondents**
Trade, tourism and catering	6	10.50%
Traffic and transport	1	1.80%
Construction	4	7.00%
Utilities	1	1.80%
Agriculture and food industry	2	3.50%
Education, culture and sports	4	7.00%
Health services and rehabilitation	0	0.00%
General public administration activities	9	15.80%
Other	30	52,60%
In total:	**57**	**100.00%**

According to the data, we notice that the largest number of respondents, 52.60%, or 30 are engaged in other activities. Considering the participation in the questionnaire of respondents who are employed in audit services agencies, accounting bureaus or sole proprietors, their confirmation of the "other" option is expected. Respondents performing jobs, general activities of public administration make up 15.80% of the respondents in the survey questionnaire, while respondents engaged in trade, tourism and catering make up 10.50% of the total number of respondents. A number of respondents of 7.00% were engaged in the field of construction and in the field of education, culture and sports. 3.50% of respondents work in agriculture and food, while 1.80% of respondents are engaged in transport and transport, as well as in utilities, out of the total number of respondents using a questionnaire.
To what extent the respondents of the questionnaire agree with the statement that non-compliance with laws, standards, rules and accounting policies can have a negative impact on the entire RS / BiH economy, the opinions of the respondents are given in the following table:

Table 9. Overview of research results - opinion of respondents on the consequences of non-compliance with laws and bylaws on the economy of RS / BiH

Option	**Number of respondents**	**% of respondents**
I do not agree at all	0	0.00%
I do not agree	2	3.50%
I'm insecure	6	10.50%
I agree	34	59,60%
I totally agree	15	26.30%
In total:	**57**	**100.00%**

The respondents' opinions confirm that non-compliance with laws, standards, rules and accounting policies can have a negative impact on the entire RS / BiH economy. Over 85% of respondents agree with this statement, and 26.30% fully agree with the consequences that may occur in case of non-compliance with laws, standards, rules and accounting policies on the entire economy of RS / BiH.
The results of the research show that a certain number of respondents do not know enough about the laws and bylaws in the field of accounting and auditing, and 10.50% of them are not sure whether non-compliance with laws, standards, rules and accounting policies affects the entire RS / BiH economy. a small number of respondents 3.50% disagree with this statement.

CONCLUSION

Fraud in financial statements is any intentional concealment or gross violation of generally accepted accounting principles that significantly affects the quality and reliability of information in any financial statement, which is confirmed by the theoretical definition of "fraud in financial statements" of many authors, both domestic and foreign and in numerous international publications. Constant changes in the global market, accompanied by the accelerated development and application of information technology in business, create a business climate of companies and their environment where there is a likelihood of errors, fraud and manipulation in financial statements. In addition to the usual problems faced by BiH companies such as market survival, business uncertainty, and accelerated economic trends, they should pay close attention to preventing financial fraud and manipulating financial statements. As important as the detection of financial fraud is in the corporate sector of Republika Srpska, it is just as important to minimize or prevent fraud to the greatest possible extent. Successful fight against financial fraud is a combination of prevention, detection, research and legal action. This requires an understanding of the types of financial fraud: misappropriation of funds, false financial reporting and corruption.
In order to minimize financial fraud and increase financial performance, a company needs to find an efficient and effective way to make the treatment of financial fraud more transparent. Fear of imprisonment, humiliation or loss of reputation are enough reasons to deter many potential perpetrators of financial fraud and make them consider whether it is worth the price that can be paid.
In order for management to effectively counter-act errors and manipulations that may occur in financial statements, it is necessary to provide: an efficient system of internal controls, adequate human resources, quality code of ethics, continuous training of employees in error detection and manipulation, set clearly written rules of conduct, suppress bad behavior. Establishing measures to prevent and detect fraud and manipulation is essential for the stability of the country's economy. It is not enough just to adopt a code of ethics in the company but to implement it in practice. Fraud can also occur if a company has an effective internal control system. The system of internal controls in companies needs to be continuously improved and protected from potential fraud. Although it is impossible to completely eliminate the risk of errors, fraud and manipulation in companies, by taking timely measures to prevent and detect fraud, the risk of fraud can be reduced.

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