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Predicting Indication of Fraud Based on Accounting and Audit Data: An AI Model Approach

The paper examines the factors that may signal the existence of potential fraud in companies' financial statements. Using a sample of the Russell 3000 firms from 2000 to 2023, we explore the relationship between various accounting, audit, internal control and market variables and the presence of fraud indicators. Two dependent variables are employed as proxies for potential fraud: the existence of Key Audit Matters (KAMs) reported by auditors and the restatement of financial statements.

The independent variables examined include audit - non-audit fees ratio, changes in company's market value, going concern issues, auditor tenure, control risk, profitability, loan leverage, and auditor size. The objective is to assess whether these factors can statistically predict the presence of fraud-related red flags in financial reporting. Our research contributes to the literature on audit quality, corporate governance, and financial reporting reliability by offering insights into the potential predictors of fraud indications in audited financial statements.

Special/ Invited session

Classification

Both methodology and application

Keywords

Fraud Prediction, Audit, AI Models

Primary authors: BERSIMIS, Sotiris (University of Piraeus, Greece); BELESIS, NIKOLAOS (University of Piraeus); ROKAKIS, Nikolaos (University of Piraeus); Dr KAMPOURIS, Christos (University of Piraeus)

Presenter: BELESIS, NIKOLAOS (University of Piraeus)

Track Classification: Predictive Analytics