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Study of financial statement fraud indicators in heavily and slightly shorted companies

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ABSTRACT

This study focuses on financial statement fraud indicators of a sample of heavily and slightly shorted companies, originating from different sectors and countries listed in the Eurostoxx. The study reveals an empirical evidence of a difference between heavily shorted and slightly shorted companies in terms of the likelihood of financial statement manipulation. The data used for these tests covered several firm-years of observations of financial statements and profit and loss positions. The results using Beneish and Dechow scores show that the slightly shorted companies' financial statements turned out to be more likely to be manipulated than the heavily shorted companies.. Additionally, the Benford's Law tests exposed more cases of financial statement fraud indications for some fiscal years over others.

KEYWORDS Financial Statement Fraud; Fraud Analytics; Forensic Accounting

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