

The impact of creative accounting on the reliability of financial statements in the context of audit opinions by statutory auditors

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Abstract of the master's thesis that won third place in the PANA Competition for the best master's thesis in the field of audit. The thesis, entitled "The impact of creative accounting on the reliability of financial statements in the context of audit opinions issued by statutory auditors", was prepared under the supervision of Dr Joanna Hartenberger-Liszek and defended at the University of Gdańsk.

Introduction

While financial information is the basis for assessing the situation of companies, the use of creative accounting practices leads to deliberate modelling of this assessment which, on top of that, takes place the limits of regulatory discretion. External audit remains a key mechanism for checking the fairness of financial statements, even though it does not always reveal advanced forms of manipulation. In this thesis, the author analysed the relationship between these phenomena and its relevance to the quality of financial information and risk assessment, and pointed out possible directions for improving the practice and theory of financial auditing.

Purpose and scope of the research

The purpose of this thesis was to investigate the impact of creative accounting on the reliability of financial statements. The author specifically addressed the role and responsibility of the statutory auditor in identifying and mitigating the risk of misstatement of corporate financial data. The thesis examined the extent to which deliberate manipulation undermines the fairness of published reports and the effectiveness of audit mechanisms in detecting and correcting such misstatements. The following three research hypotheses were formulated in the thesis:

1. The use of creative accounting techniques significantly distorts the picture of a company's financial position, which limits the transparency and usefulness of the data presented in financial reports.

2. There is a correlation between the use of creative accounting and the content of the statutory auditor's opinion, which points to the role of the audit as an instrument to reveal or neutralise the effects of such practices.
3. The scale and nature of the impact of creative accounting on the reliability of financial statements may vary depending on the sector in which the company operates.

The research also included an analysis of such internal factors as the effectiveness of internal controls and the corporate governance structure, whose inadequacies often accompany a decline in the quality of financial reporting.

Research methodology

This MA thesis consists of a theoretical and empirical parts. The theoretical part covers the first three chapters and is based on a deductive approach (from a general description of how a company operates to matters related to the quality of financial information). The starting point in this part of the thesis is to look at a company as a participant in economic life whose everyday decisions and actions are reflected in financial data, i.e. economic events. The theoretical part addresses the role of accounting as a tool that organises the said data and transforms it into financial statements, and the role of external auditing, which verifies the reliability of the information presented and allows the audience to assess its quality.

In the empirical part of the thesis, i.e. Chapter 4, the author used the so-called mixed approach. As part of the quantitative analysis, the author calculated selected financial indicators of the companies under investigation (e.g. profitability, liquidity and debt ratios) and tracked changes in their listed share prices, which gave grounds to assess how the market responded to successive events and information. The qualitative analysis included case studies of GetBack and PBG which were based on diverse sources such as financial statements, interim reports, statutory auditors' opinions and reports, official corporate communications, regulatory documents and media studies. The selection of cases was deliberate and was carried out according to the adopted methodological criteria.

GetBack S.A. represented the financial sector and specialised in debt trading, while PBG S.A. operates as a large construction group. Both entities were included in the thesis because of the scale and sophistication of the identified creative accounting practices, their significant consequences for stakeholders and the fact that their actions met with a response from regulatory authorities and attracted public interest. These cases are vivid examples of the impact of aggressive accounting operations on a company's financial picture and thus provide adequate material for

comparative analysis within this thesis. The author adapted the temporal scope of the analysis to the specifics of each company. In the case of PBG S.A., the author included the years 2011-2023, which enabled capturing both the period preceding the bankruptcy and the subsequent stages of restructuring activities. For GetBack S.A., on the other hand, the author carried out a detailed analysis of the years 2016-2018, which was the key period for the development of the financial affair, and also extended the investigation to include selected events concerning the continuation of its business under the name Capitea S.A. (2019-2023). In addition, the author used available public data up to 2025 to set the observed phenomena in a broader context and to assess their long-term consequences.

Results of the analysis

The results of the analysis showed that the use of creative accounting led to significant distortions in the presentation of the financial position of the companies under investigation. The disclosed discrepancies between the reported figures and the adjusted values concerned primarily the profitability and debt ratios which, after taking into account the adjustments, deviated from the originally reported results. The observed deviations confirmed that manipulations within the permitted regulatory limits significantly reduced the transparency of the statements and made it difficult for audiences to accurately assess the true condition of the entity. For example, key measures of profitability and debt levels changed significantly when the financial statements were “cleaned” of the effects of these creative operations, confirming hypothesis one regarding the negative impact of such practices on the transparency of data presented in financial reports.

Analysis of the audit documentation also revealed a clear link between the use of creative accounting and the position taken by the statutory auditors in their opinions. The author identified also significant limitations of external audit as a tool for effective disclosure and neutralisation of the effects of reporting manipulations. It can be concluded that there is a relationship between the scale of creative accounting techniques used and the content of the statutory auditors’ opinions, which supports hypothesis two.

Initially, financial statements containing irregularities were assessed by the auditors through formulation of an opinion with explanations, while in cases of significant doubts as to the reliability of the data, a decision was taken not to issue an opinion. However, this type of action only occurred at an advanced stage of the reporting problems when the extent of the distortion was already significant and could affect stakeholder decisions. Thus, external audit had a signalling function post factum, without being an effective mechanism to prevent manipulative accounting practices beforehand.

GetBack's 2016 financial statements received an unqualified opinion, which, as subsequent findings showed, did not reflect the entity's true financial position. In 2017, the auditor declined to issue an opinion due to persistent irregularities in the valuation of debt portfolios and revenue recognition. The report contained detailed comments indicating significant concerns regarding the reliability of the financial data. In 2018, the auditor declined to issue the opinion again, confirming the continuing problems with the correct presentation of the results and balance sheet. A clear change in the auditor's position only occurred in response to the deepening reporting distortions.

In the case of this company, the use of creative accounting was incremental, as reflected in the auditors' progressively tougher stance. At first, opinions with explanations were formulated, but as the financial difficulties deepened and more irregularities came to light, the auditors' responses became stronger. Each time between 2018 and 2023, the auditor declined to issue an opinion on the grounds that there were significant doubts about the reliability of the reported data and that sufficient audit evidence could not be obtained. Such a position was based on the magnitude of the irregularities found and was a clear signal that the information contained in the statements could not be considered reliable.

Conclusions

As the investigation shows, external audit has an important corrective and signalling function (as by formulating reservations or refusing to issue an opinion it alerts stakeholders to the unreliability of the financial statements), but its effectiveness is limited by a number of factors. These include information asymmetry between the management and the auditor (the auditor always relies on information provided by the audited company and may not have access to the full picture), business entanglements (client-auditor relations that may create conflicts of interest or pressure to soften the judgement) and insufficient professional scepticism on the part of statutory auditors.

One of the interesting insights from the comparison between GetBack and PBG is that the respective industries in which the companies operated did not differentiate the methods and effects of creative accounting. Despite the different sectors and business models of the two companies, the manipulative techniques used and their impact on the credibility of the financial statements showed striking similarities. This means that hypothesis three has not been confirmed and the results show that the phenomenon is rather of universal nature. In the debt collection company as well as the construction company, creative accounting approaches resulted in, among other things, the overestimation of assets, concealment of some liabilities

and premature recognition of revenues, which ultimately led to a similar reduction in the transparency of the financial statements.

The investigation confirmed that creative accounting is a systemic phenomenon that threatens the transparency and integrity of financial reporting. In an environment where sophisticated manipulation techniques are used, even experienced auditors find it difficult to detect and stop such actions quickly. In both cases analysed, the audit institution only acted *ex post*. In other words, the auditors' warnings came after the fact, when there had already been a serious erosion of confidence in the data presented in the financial statements. This means that institutional capacities of audit are limited and need to be strengthened.

In summary, the limitations of financial auditing require two parallel actions, i.e. strengthening the audit standards and strengthening the enforcement of oversight. Strengthening the audit standards should enhance the ability to identify misstatements in areas that are key to building a picture of a company's condition, namely assets, incomes and liabilities. Strengthening the oversight should, in turn, increase the effectiveness of enforcement so that the standards do not remain a mere postulate, but a real requirement of practice. The common denominator of the recommendations is a shift in emphasis from a final response to a response taken as early as possible. If the erosion of transparency is a process, then the systemic response must also be process-based, i.e. be more accurate, more consistent and more effectively enforceable. The informational effects of creative accounting can thus be mitigated before the distorted picture is perpetuated in public circulation.

