Impact of Audit Failure on Financial Growth of Corporates: A Case Study of Carillion Failure- Findings and Analysis

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Chapter 1: Introduction

1.1 Introduction

This dissertation is based on finance and accounting, within which main focus of the research is on highlighting financial fraud or internal audit fraud and its impact on the financial growth of corporates. It is an exciting subject to gain in-depth knowledge of financial market misconduct, internal and external auditors' role, accounting laws, investors' trust and social community or stakeholders' interests. The intentional misrepresentation of financial statements is not just limited to the organisation's bankruptcy as the repercussion, but the interests of other stakeholders are also at risk. Financial scandals of the leading companies, namely Enron and Carillion, have exposed the issue of false accounting within corporates and fraud with the people or harm to the interest and trust factor (Bhaskar and Flower, 2019). Hence, in-depth research in this selected area of analysing the impact of internal audit fraud in the case of Carillion's failure has been provided comprehensive information about approaches used for the data misrepresentation, such as window dressing, reverse factoring, profits under or overstatement. In a similar context, this chapter has presented the research background, aim and objectives, research question, significance and dissertation structure.

1.2 Background

Financial manipulations and window dressing in the statements to reveal good financial status and position to the current and future investors is not a long term favourable strategy for sustaining a solid financial position in the market (Wong, 2019). The aggressive procedure of accounting that is found in case of deception mainly involves enhanced profits, lower liabilities or debt, efficient debt collection or cash conversion, sales and dividend growth. In legal and ethical terms, it is referred to as financial fraud or financial information deception for the purpose of cheating and securing an image in the market (Zack, 2013). According to Alexander and Cumming (2020), financial fraud is an act of intentional deception aiming to reveal untrue financial information and transactions for personal gain. It is also financial market delinquency in which manipulative practices that are not fair for the investors and shareholders' interests and other market participants are conducted to secure their position.

The unfair acts of the corporates to hide accurate financial information are considered financial fraud, including material facts omission with intended purpose or intentional act of misstatement or misleading financial information or statement presentation (Alexander and Cumming, 2020). However, the repercussion of financial fraud and market misconduct is terrible, which ultimately led to many leading corporates' failure worldwide. Investors and market trust are gravely impacted due to such financial fraud and scandal, and eventually depreciate stocks and the overall financial industry. The loss of trust negatively affects firm or business value and reputational capital loss; thus, financial fraud in the short run yields benefits, but it will disrupt overall business in the future, which is a complete business failure (Karpoff, 2021). Furthermore, it has been affecting market liquidity as intentional acts of financial fraud affect the investment decision of the market participants and criticised work processes of the regulators and audit committee as a whole.

In the context of financial fraud, the chosen case of Carillion failure is one of the drastic scandals and financial fraud cases. In 2018, Carillon PLC, the leading company in the construction sector of the UK, led to insolvency after all financial wrongdoing and deceptive acts. During the financial period 2016 to 2017, the company's profits showed decrement, but in the successive year 2018, the company's profits had increased hugely from millions to billions. At the end of the year 2018, the financial statement of Carillion had showed higher total debts accounted for around £7 billion on the balance sheet, and minimum cash in hand or poor liquidity of the company (House of Commons, 2017). Various financial fraud activities were found in Carillion, such as "revered factoring arrangements, hidden debt, increased goodwill, income overstatement, and resources and expenditure understatement in the financial statements (Ceil, 2018; Wong, 2019). This corporate disaster in recent years has elevated blame and criticism of the accounting rules and government regulations. Due to this financial scandal, a liquidity crisis embarked, and around 450 or more projects in the public sector were on hold, and people also faced job loss as the effect of this financial fraud (Neate and Davies, 2020). Besides this, the audit professionals' image was also at stake after the Carillion failure. KPMG and Big Four Firms were accountable for the failure of Carillion as they worked as internal and external auditors of the company. With the internal auditors of Carillion, the company's external auditor (KPMG) was found in a conflict of interests. The Carillion failure has badly affected the broader economy and raised demand for corporate accountability reforms to avoid harming public interests (House of Commons, 2017). Altogether, the interests of various stakeholders are affected due to internal audits and financial frauds. In a similar context, this research focuses on revealing the issue of internal audit fraud in the case of Carillion and the way it impacted financial growth and stakeholders' interests thereof.

1.3 Aim and Objectives

This dissertation is aimed to investigate the impact of audit failure on the financial growth of corporates, in the particular context of the chosen case study of Carillion, to study the reason for Carillion's failure. In relation to the audit failure, this research mainly reveals the overall impact of fraud on the growth of Carillion and how the functioning of the Big Fours is affected. In relation to this, this dissertation addresses the following objectives that are as follow:

- To examine the impact of internal audit/financial fraud on the long-term growth of corporates by analysing the Carillion Failure.
- To evaluate practices of financial fraud used in the case of Carillion and the reasons for financial fraud.
- To analyse the role of Big Four Firms in Carillion's Audit Failure.
- To analyse the Carillion Scandal and Financial Statements Fraud.

1.4 Research Questions

The main research questions that have been answered in this dissertation to address the research aim and objectives are presented as follows.

RQ 1: What is the impact of internal audit and financial fraud on the organisation's long term financial growth of Carillion?

RQ 2: What was the role of Big Four Firms in Carillion’s Audit Failure?

RQ 3: What were the Carillion Scandal and Financial statement fraud?

1.5 Research Significance

This study would have worthy theoretical and practical implications as this research has comprehensively covered the context of internal audit and financial fraud-related practices and their impact on the long-term growth of corporates or the failure of corporates and investors' trust. A critical discussion about the impact of internal audits and manipulations in the financial statements in the context of the business survival, in the long run, would be valuable information for the existing and new companies to understand the effect of illegal and unethical practices and non-compliance with the financial and accounting laws. Furthermore, the Carillion failure case analysis in this dissertation would have practical implications for the financial managers and auditors to understand the leading causes behind failure and also the role of Big Four Firms.

The findings of this dissertation would have significant practical implications because it has analysed the real-world case standard of Carillion and its financial fraud. However, this work would also be helpful for the finance stream students and future scholars to conduct more research in the same direction. Future scholars would refer dissertation finding as the case information in future research work. Moreover, knowledge of practical and applied theories in the context of the need for proper financial information presentation and investors' trust would also be gained from this study.

1.6 Dissertation Structure

Number	Research Activities	Description
1.	Introduction	It has covered the introduction and background of the internal audit failure and its impact on the financial growth of corporates. Aim, objectives and questions are demonstrated in this chapter. In addition, the research significance section has been covered in this chapter to reveal the usefulness of this investigation on the impact of internal audits.
2	Literature Review	A literature review has been provided with a critique of the majorly academic studies and some authentic sources to gain subjective knowledge of Carillion's failure, financial statement fraud, and audit firm's role. The essential purpose of this chapter is the identification of the research gap is also presented along with a summary.
3	Methodology	Methodological aspects and methods used to address the research problem are detailed in

		this chapter to reveal data originality, credibility, and relevance.
4	Analysis and Findings	Data analysis as per the chosen method of thematic analysis has presented in this chapter to reveal the familiar and critical pattern. Findings have been discussed, including own inferences and trends and literature evidence.
5	Conclusion and Recommendations	The conclusion has presented a summary and data findings addressing the research questions. Furthermore, the corporates have also covered recommendations to avoid the repercussions of the internal audit failure and future studies.

Chapter 2: Literature Review

2.1 Introduction

The costs of responding to frauds against government programmes are substantial and extend far beyond the immediate cash loss. They may include the expenditures of evaluation, identification, investigation, and reaction, as well as any possible reparation. Additional expenditures may include programme evaluations and audits, as well as retrofitting or rebuilding programmes; this is also going to affect the overall growth of the company in the long run (Karpoff, 2021). Carillion plc was a UK industrial powerhouse that went bankrupt in 2018. It accomplished this while carrying a £2.6 billion annuity burden and a £2 billion credit to vendors, consultants, and short-term lenders. In the case, the financial statement of Carillion in 2016 have showed vigour, demonstrating a business paying a career-best profit of £79 million-£55 million and providing significant success incentives to its senior personnel. Moreover, withing the 4 months of publishing of the annual report in 2016, the firm faced a warning indicating in its profit of £845 million reduction in its total contracts. Showcasing of this false information affected the working of the company and left a negative impact in the long run (Bishop, 2018).

This literature review is going to emphasise the impact of financial fraud on long-term growth by analysing the Carillion Fraud. Moreover, the role of the big four firms that are, KPMH, Deloitte, PricewaterCoopers (PwC) and Ernst & Young (EY), is going to be critically analysed. Furthermore, the reason for financial fraud is also going to be discussed in order to get better insights into the failure of Carillion.

2.2 Carillion Failure

According to Wong (2019), Carillion took advantage of their supply chain financing plan, which cost approximately £500 million. Further, the company adopted aggressive accounting procedures to effectively window dressed financial information in order to boost the cash-flow conversion efficiency, improve net cash, reduce debt, and enhance cash earned from operational activities. Cash conversion has been utilised as a significant performance metric and a factor determining topmost management compensation in every Carillion's financial report in the 3 years following its collapse. However, between 2014 and 2016, the "other creditors" increased by £355.9. This problem was produced by Carillion's reversed factoring arrangements to fund cash flow, and as a result, it influenced the calculation of cash flows.

According to Seehausen (2021), as per previous financial statements, it is clear that Carillion's accounting information has been significantly bolstered by reputation. For example, in 2016, the business registered goodwill of £1.6 billion, and it was moreover double the financial worth of £730 million and accounted for nearly 35% of Carillion's gross assets. Carillion acquired goodwill via acquisitions, which is also the difference between the net profitability of the business acquired and the amount paid. In a similar viewpoint, Chenguel (2020) stated that showing increased goodwill was intended to represent the future earnings of a company Carillion had bought in prior years. Because goodwill is so important on the accounting records, any serious theft would have a significant impact on stated performance. As a result, it might be argued that the excessive motivation to keep the value of reputation in accounting is concerning.

Moreover, according to Sasse, Britchfield and Davies (2020), Carillion was employing the reverse factoring approach, sometimes known as a "hidden debt loophole." Carillion appeared to be in better shape as a result of this approach. Carillion, for example, reported operational working capital of £115 million and an operating income of £145 million in 2016, resulting in a respectable cash flow. However, it is important to remember that the operating income was boosted by a £200 million increase in "other debtors" in 2016. The operational income would have been lower if funds had not been collected from "other debtors." Carillion's debt-to-equity ratio was 5.3 in December 2016, much beyond the commonly accepted appropriate standard of 2.

Moreover, in a similar viewpoint, Hajikazemi*et al.* (2020) identified that dividend payments were a key financial signal for Carillion, accounting for around 64 percent of their £124 million revenues in 2016. Furthermore, Carillion had taken delight in paying out considerable returns to its stockholders in recent years. The rising payout was accompanied by an improvement in the stock price. Nevertheless, it was discovered in 2016 that Carillion's pension system had incurred a shortfall of -£811 million, which was much greater than that of the balance-sheet capital of £701 million. As a result, this implied that top management chose to distribute dividends to stockholders rather than use the funds to pay for said company's pension obligations to domestic and foreign employees.

2.3 Financial Statement Fraud

According to Jan (2018), occurrence of fraud is evident of creating far-reaching consequences, which even go beyond the monetary losses. The occurrence of fraud has wider influenced all the stakeholders of the corporation, including individuals, industries, businesses, resources, and the ecosystem. Occurrence of fraud create major consequences on the tangible and intangible assets of the company. Moreover, Sanadand Al-Sartawi (2021) mentioned that assessing the monetary impact of fraud is difficult. Fraud is a concealed crime that is hard to identify. In many circumstances, public agencies may be unable to uncover all fraud committed towards them. Furthermore, public entities may be unable to determine if a situation was fraudulent until several years after that happened.

According to Kanapickienė and Grundienė (2015), fraud of financial statement is considered as intentional manipulation of the company's overall financial statements and balance sheets in order to deceive financial data users and provide a positive picture of the economic position of a corporation, profitability, and working capital. Generally, financial statement fraud is spread by businesses in order to accomplish desired results. For example, in case of fraud, a firm's management is seeking bank permission for a long-term loan are evident to falsify its financial figures to creating an image of secure repayment of the loan. Moreover, to make stock more appealing, the management of a company may indulge in the practices of falsifying the financial statistics to shareholders and, as a result, boost the share price. Also, organisational managers may falsify the financial statistics for justifying compensation and raises. This frequently arises when managerial remuneration is related to corporate performance.

Moreover, in the viewpoint of Ceil (2018), the most common type of financial statement manipulation involves an exaggerated or overstated identification of income, as well as an underestimation of operating expenditures or an overestimation of resources. Due to the numerous obvious incidents, convictions and refutes that have defined this case, determining the level of bookkeeping and economic fraud by firms is challenging. However, based on the evidence given, it appears to be impossible to validate accounting or financial data, such as a rise in earnings. Indeed, a rise often reflects the failure to recognise some activities or perhaps an overestimation of negotiable instruments or government subsidies receivable. There are a wide range of real-life examples of audit failure of big corporates. For example, the entire edifice at Enron scandal was due to massive accounting fraud, which reported reckless utilisation of derivatives, improper trading practices and hedging of risks by special purpose entities (Bhaskar, Flower and Sellers, 2019).

2.4 The Carillion scandal and Financial Statement fraud

According to Smith (2018), the IFRS rules ensure that estimates used in calculating goodwill be tested on a yearly basis to determine if the estimates are degraded or have dropped in significance. Carillion never declared a depreciation in its yearly accounts, implying that management remained convinced that the amount given for each purchase was justified by the ongoing economic gains it anticipated from it. Carillion, on the other hand, struggled to explain several of its acquisitions. For example, when Carillion bought Eaga in 2011, it reported a goodwill value of £330 million. However, despite Philip Greene, the former Carillion Chairman, admitting that perhaps the acquisition was just an error, the sum remained unchanged after 5 years of recurrent losses. Consequently, despite the high worth of goodwill, working capital was much lower than the quantity represented by net earnings.

Chapman (2018) described that Carillion handled market risk by eliminating competitors for large contracts while buying rivals such as Alfred McAlpine and Mowlem; however, they paid far more than their actual net assets for that and other firms. Carillion was widely seen to have overpaid for these purchases. Furthermore, Carillion padded its financial sheet with unrecoverable goodwill, allowing notional goodwill values to linger on the balance sheet year after year without re-evaluation. As a consequence, when the firm fell, the goodwill was wiped away, displaying its actual worth as zero.

With regard to the above claims, a substantial level of attention of management towards fraud is also explored in the case of Carillon. The management of the company is evident to support the adoption of aggressive accounting strategies and not reported it to external auditors, which supported their acts towards window dressing of financial statements.On the contrary, the acquisition strategy that the company has followed was also one of the main reasons that were identified for constant problems. Carillion had long pursued a growth strategy based on external acquisitions instead of focusing on internal growth in order to enhance short-term earnings and significant contracts. This process began in 2001 with the purchase of a 51 percent investment in GT Rail Maintenance and culminated in 2016 with the purchase of a majority stake in Ask Real Estate and ultimately due to such a strategy. By the summer of 2016, hedge funds had acquired over 20% of Carillion's stock that up from less than 5% at the start of 2015. The company's share price declined 19% during the same period, yet the corporation made no meaningful modifications to its growth strategy or dividend payments to shareholders (Hajikazemi *et al.*, 2020). Similarly, the fraud intention of the management can be acknowledged from their acts of disbursing dividends to shareholders, instead of utilising the finances to pay for the pension commitments for the past and current employees (Mor, 2018). Amid this, the management was aware of the default of the company and financial difficulty. Due to all these unfair intentions of the management, the auditors of the company were not able to track and perform due diligence effectively on the figures provided by the management.

Apart from this, the lack of stringent compliance with global financial regulation to report intangible assets and negligence of auditor in conducting fair and transparent audit of the financial statement and avoiding misstatement had contributed to collapse of Carillon (BBC, 2022). In contrast to this, a real-life example of the accounting scandal at Freddie Mac Scandal in 2003 had reported lack of accounting expertise, ineffective internal control system and smooth functioning of management issues that led to accounting fraud in the company. But in this case, auditors had discovered the manipulation in the company accounts (Hilzenrath and Day, 2003).

According to a report by, The Guardian (2022), Carillion's corporate strategy was based on tendering poor margins to secure contracts and then using large amounts of borrowing to mention high profits in its financial statements. Furthermore, the firm had been in a highly competitive field with razor-thin profitability. Low margin agreements are prone to risk as tiny variations in income and expenditure can readily affect the total profitability of such a single agreement. Furthermore, the poor revenues will have a knock-on impact across the distribution chain. For example, Carillion's operational margin during the previous eight years has been between 1-4 percent, while its profits margin has ranged between 2-3 percent.

As per Chapman (2018), the corporation was mostly engaged in low-margin industries with high levels of competition and risk rather than focusing on conservative accounting, wherein the future performance of the firms is mostly kept in mind instead of current performance. Carillion, on the other hand, has used aggressive accounting, which is more focused on fulfilling and obtaining short term goals instead of strengthening the corporation's long term financial standings (Sari and Agustina, 2021). Altogether, Carillion turned off its opportunities to invest in the developing firm and instead relied on debt to support its spending binge.

It is extremely important to highlight that Carillion frequently engaged in long-term agreements and that the old IFRS accounting regulations offered corporations choice over whether to disclose contract profits. Carillion's financial records provided little information on the way in which the business compensated for long-term agreements. The review of the case of collapse of Carillion found consistent with Macneil's relational contract theory, which claimed that every transaction in the corporation is embedded into complex relations that involve trust and cooperation. This suggested complexity in financial regulations in contract formation that abide parties is the key weakness giving rise to regulatory failure and accounting fraud cases (Wong, 2019). This complexity is evident in the case of Carillion, which led to failure of the company.

According to Edgar, Brennan and Power (2021), financial statements are intended to depict a corporation's genuine status; nevertheless, when it comes to true bookkeeping, they are very subjective. The demise of huge corporations such as Carillion doesn't really happen suddenly. It is the consequence of bad business decisions taken over a long period of time and hidden in the financial statements. As a result, in the context of a major corporation like Carillion, the financial misappropriation effects are felt over numerous years. As a consequence, while investigating financial statement fraud, an accountant should study a company's previous financial statements or government publications. In a similar point of view Sweet (2018) stated that whenever examining financial statement fraud, a certain set of measures must be taken in order to thoroughly examine and create reliable data showing whether or not the organisation has performed fraud. Additionally, the auditor is supposed to keep in mind that during the auditing process, it is relatively simple for major firms such as Carillion to conceal financial statement fraud. This is due to misinterpretations that could be hidden by relying on different meanings of financial rules while generating financial statements.

2.5 Role of Big four firms in Carillion audit failure

According to Hajikazemi *et al.* (2020), the liquidators of Carillion have sued KPMG for 1.3 billion pounds ($1.77 billion) for ignoring "red flags" throughout inspections of the construction company, from one of the world's biggest lawsuits involving one of the global highest accountants.Moreover, Day (2018) stated that, over the previous year, the operations of the 'Big Four' accounting companies, which would include Ernst & Young (EY), PriceWaterhouseCoopers, Deloitte, and KPMG, have been scrutinised,wherein KPMG served as an external auditor, Deloitte as an internal auditor, EY provided turnaround counsel, and PwC served as a pension and government advisor to the firm. According to Dunne and Brennan (2021), all the big four companies used impression management strategies at the endto justify their role. In January 2018, Carillion, the construction firm was declared bankrupt by charging with £7 billion in obligations and £29 million in cash. Carillion had pension obligations of roughly £2.6 billion, leaving its employees with the potential of getting lower pensions on top of the large number of job layoffs caused by the collapse. Carillion reportedly owed roughly £2 billion to its 30,000 vendors, subcontractors, as well as other short-term debtors at the period of its collapse, who are expected to get nothing from the bankruptcy pool (VERSCHOOR, 2018).

Moreover, Bhaskar, Flower and Sellers (2019) stated that liquidators of the UK Government intended to sue KPMG for £250 million due to the negligence of the order that was conducted for the investigation of Carillion. Similarly, the liquidation of Carillion is still ongoing three and a half years after the company's collapse, according to the official receiver. The letter is a forerunner to full-fledged litigation, which will very certainly involve the insolvency Service, saying that KPMG failed to properly investigate Carillion's books, failing to notice that it was portraying a far healthier financial picture of itself than was the case. It's doing so in collaboration with KPMG's competitor PricewaterhouseCoopers, which has been accused by MPs of "feasting on the corpse" of Carillion by collecting £72 million in fees for advice in the years running up to its bankruptcy (The Guardian, 2021). According to Steer (2018), Carillion has long been regarded as one of the most popular construction and support service firms in the eyes of both public and the UK government. In this regard, the author has also recounted other companies that faced a similar downfall in their profits due to the constant accumulation of debts; for instance, Amey, which was also a construction and support service firm. The quality of both the corporations' present assets deteriorated dramatically, causing their stock values to plummet. Because both organisations' debt levels were growing, therefore, it became critical to transforming their current assets into cash. However, in the end, none of them was able to convert their money into cash; anyone who has read their annual reports should not have been surprised. The overall subcontracting group went bankrupt in the year 2018 and was worth an additional 1.3 billion euros. The Financial Times reported that the national liquidator, which had collected the creditor's assets, revealed that the overall board of directors paid a dividend of GBP to 3.2 million in addition to the remuneration of GBP 17 million. It was considered that the operations that were conducted by the organisation worked profitable and sustainable. However, if KPMG had been able to identify the discrepanciesin the overall financial statement of the company, it would have paid off. It was mentioned that the company paid GBP 63 million in accordance with the dividends over the last five years from 2012 to 2016, which was claimed for particular concern. The proposed elevation is that KPMG was not able to disclose the errors in recognition of revenue and liabilities for different construction agreements and its negligence in auditing the accounting goodwill, which is the future value of the acquired business (Sweet, 2018).

According to an article by BBC (2022), the complaint against KPMG seeks more than £1 billion in damages, which comprises amounts handed out in pay-outs to shareholders, consulting fees, and expenses incurred as the firm remained to operate. According to court records disclosed on Thursday, the malpractice lawsuit against KPMG for the claimed part in Carillion's bankruptcy was brought the High Court of London in January. KPMG served as Carillion's auditor for 19 years, receiving around £29 million for its audit services. The action concentrates on the worth of key long-term building agreements that the Official Auditor believes were not correctly reported for in 2014, 2015, or 2016, leading to over £800 million in misrepresentations on Carillion's accounts. They include the Royal Liverpool Hospital, the Southmead Hospital renovation, the Aberdeen ring road, and airport construction at Gatwick and Stansted. Moreover, it was claimed that KPMG refused to react to many "red flags."In this context, according to Minutti-Meza (2021), enhanced auditor reporting is part of a complete resolution to systemic audit quality concerns, notwithstanding the limits of expanded reports. In this regard, some of the major red flags that were ignored in the case of Carillion were shorted stocks, which auditors of KPMG also testify of being aware whereas the big investors such as Standard Life Aberdeen (SLA) and Kiltearn started divesting in 2015. Similarly, giving KPMG £29m as audit fees and £11m to Deloitte was again a sign of massive waste of both time and money which were only meant and suitable to give investors, employees, and the general public false assurance.

According to a representative for the Liquidator, who also serves on interests of Carillion's creditors, the decision was made in the best interests of individuals "who suffered significantly in the process of liquidation." The judgement is predicated on legal guidance, which states that KPMG is liable to Carillion's debtors for any damages caused. It was stated that KPMG was refuting the allegations and stated that it had no base.

2.6 Research Gap

In the literature review, it has been identified that there is ample information available about the failure of Carillion. Moreover, after analysing the information available it was identified that there are certain aspects that are not covered and there are certain areas like the overall impact on the company's growth and the national income of UK, this research is going to help in analysing the overall impact of fraud on the growth of Carillion and the ways in which the functioning of the Big Fours is affected.

2.7 Summary

After reviewing different literature, it has been identified that there was no indication of Carillion engaging in open financial statement fraud relying on the evidence supplied by the accountants in the financial statements. The firm was primarily utilising the supply-chain funding plan, a legal funding method that benefited both Carillion as well as the collaborating suppliers. Carillion, on the other hand, exploited it by excessively window-dressing financial numbers. As a result, a cursory examination of the corporation's financial statement would have revealed no red flags, which focuses on the operational income that appeared to have met interest expenditures. The intense investigation, on the other hand, reveals symptoms of financial weakness. Carillion's accountancy practises, pension compensation plans, goodwill, and key income metrics utilised in income statements were all cited as concerns.

Chapter 3: Research Methodology

3.1 Introduction

The logic of development is presented as a process to construct theory, and research methodology acts as a procedural framework within which the research is done. It lays down the groundwork for planning, organising, designing, and carrying out research. The explanation of the research methodologies and instruments utilised in the research, as well as the reasoning and assumptions considered for this research, assist in answering the research questions (Patel and Patel, 2019). Research Methodology helps in developing an effective framework that ensures reliability, as well as the credibility of data collected for addressing the aim of the research in an authentic and valid manner (Opoku, Ahmed and Aziz, 2016). The current research study mainly aims at critically evaluating the impact of audit failures on the company in the light of the Carillion failure case. In order to address the research aim and objectives, this chapter incorporates research philosophy, approach strategy, data collection and data analysis used in conducting the research study.

3.2 Research Philosophy

According to the Saunders Onion Model, research philosophies are classified as interpretivism, positivism and pragmatism. Interpretivism research philosophy is a suitable choice for current research study as it provides assistance in gaining new knowledge based upon detailed findings and effectively interpreting the data (Melnikovas, 2018). Thus, other philosophies, such as positivism, were not used as they are deficient in the context of explanation and in-depth comprehension (Wilson, 2021). On the other hand, pragmatism is a deconstructive philosophy that promotes truth and reality through mixed methods of study (Kaushik and Walsh, 2019).In this regard, the application of this philosophy helped in making proper interpretation of data that aid in understanding the impact of audit failure on the growth of companies with regard to Carillion collapse. It is useful for conducting secondary data-based research and helped in gaining knowledge regarding the impact of audit failures on growth of companies by examining the perspectives, opinions and experiences of the people. Interpretivism research philosophy helps in analysing the qualitative data that has been gathered through the application of secondary data collection method effectively, which further confirm the suitability of this philosophy in this research.

3.3 Research Approach

The two most commonly used research approaches are deductive and inductive approaches that help in developing a rational conclusion and also provide specific direction for the research (Wilson, 2021). In the current research study, inductive approach has been used as it helps in conducting subjective interpretation and moves from specific to general (Glaser, 2014). The inductive approach which has been utilised in this research study follows bottom to up direction. Thus, the adoption of an inductive research approach aided the flow of comprehensive data needed to meet the research objectives while also expanding the study's scope. Similarly, the selected method uses a comprehensive collection of premises to arrive at a conclusion. Since this research seeks to generate additional theory through the examination of specific observations and critical examination of the impact of audit failure on growth of companies in light of the Carillion failure case, inductive approach was identified as a more useful approach for this research. On the other hand, the deductive approach is not suitable for this research as it does not include hypotheses or does not aim at generalising research findings.

3.4 Research Strategy

Research Strategy is defined as a plan followed for data collection and data analysis by providing assistance in choosing appropriate data collection method that can help in addressing the research question. The commonly used research strategies are exploratory, explanatory and descriptive research strategy that helps in maintaining control on the components that can affect research findings (Myers, Well and Lorch, 2013). In the current research, exploratory research strategy is applied as it is useful for analysing the real-time phenomenon and also helps in evaluating research problem with the help of qualitative data collection method. In this regard, as this research seeks to examine the changes due to audit failures that significantly impact the growth of corporates; the exploratory design is used as a suitable strategy for this research. Additionally, the application of this strategy also helped in integrating secondary data sources in an effective manner along with drawing reliable findings for the research. The integration thus facilitated through the exploratory design, helped in establishing a coherent theoretical foundation in relation to audit failure with regard to the Carillion failure case. An explanatory approach is a sort of research technique that aims to explain all several components of a research. In other words, it begins with a broad concept and then uses research to aid in the selection of subsequent topics to investigate (Kennedy and Edmonds, 2016).

3.5 Data Collection

Data collection method plays a vital role in gathering requisite data for addressing the research problem. Secondary data collection method has been used in the current research study for gathering data from books, journal articles, government reports, audit report, newspapers and case studies. While primary data is first-hand information obtained expressly for a study, secondary data is information gathered by someone else for a previous study with identical research variables or topics. For researchers who do not have a lot of time or resources to obtain primary data, secondary data is extremely beneficial (Billups, 2019). The data has been gathered by using desk-based research because it is helpful in saving cost and time as the sources of data are available in the databases. In this regard, a search strategy has been used in conducting the research study that comprises of three phases. Under the first phase, some search strings and keywords such as *Carillion failure, Carillion collapse, audit, audit failure, audit negligence, financial scandals and corporate failures* were used for searching appropriate data from selected databases. In the first phase, total 50 articles were selected with the help of different databases such as Research Gate, Google Scholar, Elsevier and Emerald.

In the second phase, exclusion and inclusion criteria were used and key elements are depicted in the table:

Table 1: Inclusion and Exclusion Criteria

	Inclusion Criteria	**Exclusion Criteria**
Language	• The study relied on research publications written in English. Because English is the most frequently spoken and studied language, using English-language articles increased the generalisability of the study topic, and more people would be able to utilise and comprehend it in the future.	• The research did not include any research publications that were not published in English. Because other languages, such as Chinese, Spanish and French. are not widely spoken. Thus articles written in these languages were avoided.
Sources of Data	• Journal articles on financial frauds and Carillion failure • Academic peer-reviewed articles • Government Report	• Non-academic publications • Journal articles on topics apart from financial frauds and Carillion failure

Types of Studies	• Studies including quantitative or qualitative methodology • Detailed systematic reviews	• Paper without references • Online essays, blogs and thesis and blogs related to Carillion failure and financial frauds
Time of publication	• The analysis relied on research publications released after 2016. It aided in the gathering of up-to-date material on the study topic.	• The analysis has not considered and eliminated research publications published before 2014.

At the end of the second phase, 35 articles were selected on the basis of inclusion and exclusion criteria. Under the third phase, quality assessment criteria have been used on articles selected under phase 2 where methodologies used in the selected articles were analysed for quality assessment criteria. The key quality assessment criteria applied were reliability, authenticity, generalisation, specific research questions, clear research aim and objectives. The articles were categorised as high, medium and low on the basis of quality assessment criteria. Thus, 8 articles were selected at the end of the third phase for conducting the final analysis that were under the high category.

3.6 Data Analysis

Data analysis is one of the most significant aspects of doing research since it aids in the interpretation of the study's findings and facilitates a sound research conclusion. Different approaches for analysing qualitative data exist, such as theme analysis and meta-analysis. In the current research study, qualitative data has been used for conducting research and qualitative data analysis technique is used for data analysis. The analysis of qualitative data has been conducted by applying the thematic analysis method that explores implicit, as well as the explicit meaning of the data while allows for a more complete interpretation of the findings (Oflazoglu, 2017). It focuses on analysing themes or common patterns in the qualitative data. It is a useful method that helps in analysing research findings in relation to lived experience, perspective, behaviour that influence the social phenomenon. The extended literature review section is covered under chapter 4 of findings and analysis.

3.7 Ethical Considerations and Limitations

Secondary data was acquired for this research in order to fulfil the research aims and objectives. In this regard, the ethics of permission, privacy, secrecy, and validity were examined in this regard. Ethical considerations are important in maintaining the legitimacy of research findings and fostering justice and mutual respect in society (Catic, 2017). The research study considers various ethical aspects for conducting research such as authentic published sources are used for procuring information and data of the company. Non-factual information, data manipulation and plagiarism has been completed avoided (Mami, 2019). At the time of conducting research study, the provision of Data Protection Act 2018 is abide and any institution is not maligned while writing the content. We have ensured integrity of the research by acknowledging all the scholars and academicians who are referred in this research by providing clear and correct in-text citation in Harvard format. The sources used for collecting data for research are properly referenced. The research study is conducted with the secondary and qualitative data collection method; however, it can be more effectively conducted with the help of quantitative and primary data collection method that can help in providing more authentic and reliable information. Any element of the research study has no goal of harming any individual's personal values, societal ideals, or feelings in any way.

Chapter 4: Findings and Analysis

4.1 Introduction

The presented section will focus on analysing the findings of the literature. The thematic analysis proves to be fruitful in analysing the study findings as it provides a better accessible analysis form with the help of preparation of several themes in alignment with the research objectives (Nowell*et al.*, 2017). In the same context, several themes in alignment with research objectives will be prepared for analysing research findings. Additionally, the discussion section will also discuss the findings of the research and align the same with the support of other studies.

4.2 Thematic Analysis

Theme 1: Analysis of failure of Carillion

The findings of the research study revealed that the company, namely Carillion, took advantage of a plan related to supply chain financing that cost the company almost £500 million. Additionally, the company also adopted the practice of window dressing for manipulating financial information and presenting unfair results in the financial statements. The adoption of an aggressive accounting process of window dressing helped the company enhance its cash flow efficiency, improve cash flow from operating activities, and reduce the amount of debt. The company used cash conversion as a performance metric; however, the reversed factoring arrangements revealed the problem of an increase in creditors by almost £355.9 million between 2014 and 2016 (Wong, 2016).

Additionally, the findings of the research study also revealed that the accounting information of the company is mainly bolstered by reputation. The findings also revealed that the company reported goodwill of £1.6 billion and a net worth of almost £730 million in 2016, which shows almost 35% of the company's gross assets. Further, the company increased its goodwill through acquisitions. The company paid an increased amount for acquiring companies to enhance goodwill (Seehausen, 2021). Similarly, it is also identified that the critical reason behind stating a high amount of goodwill is to represent future earnings. Since goodwill is pivotal for accounting records, any significant theft would affect performance (Chenguel, 2020).

The findings also revealed that the company used a reverse factoring approach, commonly known as the hidden debt loophole. The company, namely Carillion, used the same for presenting itself in a better position. For instance, the company reported £145 million of operating income and £115 million of operating working capital; however, it boosted its operating income by almost £200 million due to an increase in other debtors. The operating income of the company would have been decreased in case the company failed in collecting the due balance from the debtors. Furthermore, it is also found that the debt to equity ratio, which reflects the proportion of debts over equity, was also relatively high during 2016. The company reported a debt-to-equity ratio of 5.3, which was relatively high compared to the standard debt-to-equity ratio of 2 (Sasse, Britchfield and Davies, 2020).

The company adopted the practice of paying nearly 64% of business revenues in the form of a dividend to the company's shareholders, which can also be seen as one of the main signals behind the company's scandal. As a result, the company reported business revenues of almost £124 million, of which 64% has been paid to shareholders in dividend form. The excellent payment to stockholders helped increase the company's stock prices. However, during 2016, it was also identified that the company fell shortfall of almost £811 million in its pension system, which was relatively higher than the company's capital of £701 million. For the same reason, the company chose to pay a dividend to shareholders and stop paying pension obligations (Hajikazemi*et al*., 2020). Overall, it can be inferred that the key reason behind the failure of the company is the high level of debts and the inability of Carillion to obtain a sufficient level of funds from the financial institutions.

Theme 2: Evaluation of financial statement fraud

In alignment with the second objective, it has been identified that the conduct of fraud creates not only monetary losses but also provides other repercussions on the companies. Fraud influences a wide range of stakeholders such as employees, businesses, industries, and others. The findings also reflected that the fraud created enormous consequences on both tangible and intangible assets of the companies (Jan, 2018). Additionally, the findings also stated that evaluating monetary impact due to corporate fraud is quite a complex process and difficult. The conducting of fraud requires a sharp mind. The accountants use complex techniques for fraud, which is quite typical to identify. It is impossible for one to identify all frauds committed by business entities. Besides this, it is also tricky for firms to identify the fraudulent situation, and the same is highlighted when a major loophole comes into existence (Sanadand Al-Sartawi, 2021).

Additionally, it is also discussed in the presented essay that fraud is an intentional act wherein accountants use manipulative techniques to reflect wrong financial information to the stakeholders of the companies. The manipulates the accounting records for presenting better financial performance and position of the companies due to the reason of presenting a better picture of the company to financial statement users. Companies generally adopt this type of practice for attaining desired objectives and expanding business operations. The study has also discussed a wide range of fraud examples that companies use to present a better market image. For instance, the business adopts falsifying financial records, wherein they reflect better profitability and liquidity position to secure a loan from financial institutions. Another example is to boost the profits of the company to increase the stock prices and provide ample benefits to the shareholders. The managers of the companies also manipulate financial records for obtaining an adequate level of compensation and incentives (Kanapickienė and Grundienė, 2015).

The findings of the study revealed that the most common type of practice used by a wide range of companies for committing fraud is an overestimation of business revenues or profits and an underestimation of business expenses. However, the wide range of such incidents makes it difficult to determine the level of corporate fraud. Besides this, the findings also stated that validating financial data is also quite impossible (Ceil, 2018). Additionally, there is a wide range of real-life examples, which reflects the audit failure of the biggest companies all across the globe. For instance, it is identified that Enron also reported a scandal with the help of manipulating accounting entries. In addition, the company reported massive accounting fraud with the help of the use of reckless use of derivatives, ineffective trading practices, and others (Bhaskar, Flower, and Sellers, 2019).

Theme 3: Assessment of the Carillion Scandal and Financial Statement Fraud

The findings indicate that the IFRS rules have prescribed that the calculation methods used for goodwill must be tested yearly to identify that the estimates are dropped or degraded in abundance. However, in the case of Carillion, the management failed to declare the depreciation under the financial statements. It suggests that the management of Carillion was convinced that the purchase amount was justified. Further, the management of Carillion undertook several acquisitions but failed to explain the same. For example, the company acquired Eaga in early 2011 and reported £330 million goodwill in the books. Later on, the former chairman of Carillion admitted that the acquisition was an error, although the goodwill amount was intact even after recurrent losses for five years (Smith, 2018).

On the other hand, the findings also revealed that the management of Carillion supported the aggressive accounting strategies but did not report the same to the external auditors. It indicates that the management of the company used window dressing in the financial statements of the company. In addition to this, the findings also exhibited that the management of the company had fraud intentions because the funds of the company were used for distributing dividends to the shareholders instead of paying for the pension commitments of the current and past employees of Carillion (Mor, 2018).

The secondary data analysis also indicates that the management of Carillion was aware of the company's financial instability, difficulty, and default, which in turn restricted the external auditors to find out the company's actual position and prevented them from deploying due diligence during an audit. The findings indicate that the acts of the management of Carillion, such as stringent compliance with the financial regulations to report intangible assets, preventing the auditor from conducting a fair and transparent audit, and supporting misstatement, contributed to the company's scandal and its collapse in the market (BBC, 2022). The obtained data and information also revealed that the corporate strategies adopted by the management of Carillion reflected poor margins in order to secure contracts in the market and indicated higher profits after borrowing large amounts under the financial statements. The company adopted these strategies to counter the highly competitive market. As a result, although the company witnessed poor revenues in the past several years, the operational profits ranged between 1% to 4% and net profits between 2% to 3%. In addition to this, the IFRS rules suggest that a company must provide detailed information on how the long-term agreements are compensated. However, the management of Carillion only provided little information about the same under the financial reports (The Guardian, 2022).

The literature review analysis also exhibits that the relational contract theory proposed by Macneil was consistent with the collapse of Carillion. As per the theory, corporate transactions are embedded in complex relations involving cooperation and trust. Therefore, the complexities involved in the financial regulations under the formation of contracts are critical weaknesses resulting in accounting fraud cases and regulatory failure (Wong, 2019). Similar complexities were witnessed in the Carillion case that failed the company. Further, the findings also indicate that the collapse of Carillion was not a sudden incident. Instead, several lousy management decisions over the past several years contributed to the demise of the company. Therefore, an auditor or accountant must study and focus on the government publications and financial statements of previous years of a company to investigate financial statement frauds effectively (Edgar, Brennan and Power, 2021). In a similar context, the findings also indicate that an auditor must ensure the implementation of specific measures to thoroughly examine the reliability of the financial data to identify frauds. Moreover, the auditor must keep in mind that large firms like Carillion can conceal financial statements fraud to present a better picture of the company in the market (Sweet, 2018).

Theme 4: Determination of the Role of Big Four Firms in Carillion Audit Failure

The findings in the context of the research objective suggest that the liquidators of Carillion sued one of the Big Four "*KPMG*" for £1.3 billion on the grounds of ignorance of red flags throughout the inspection (Hajikazemi*et al.,* 2020). Further, it has been identified that the operations undertaken by the Big Four (Deloitte, KPMG, Ernst & Young and PriceWaterhouseCoopers) have been scrutinised over the past several years (Day, 2018). For example, Carillion was one of the parties of KPMG that recently declared itself bankrupt by charging obligations of more than £7 billion and £29 million in cash. Moreover, the company had roughly £2.6 billion of pension obligations indicating lower pensions for its employees on top of layoffs in abundance due to the company's collapse. Additionally, the findings suggest that the company had 30,000 vendors, debtors, and sub-contractors and owed them around £2 billion at its collapse (Verschoor, 2018).

In addition to the above, the findings also revealed that the liquidators of the UK government are also intended to sue KMPG for an amount of £250 million on the grounds of negligence to investigate the financial matters of Carillion. The reports indicate that the national liquidator who had collected the creditor's assets identified that a dividend amount of £3.2 million and remuneration of £17 million was paid by Carillion to its board of directors despite huge dues and other obligations. Such discrepancies in the financial statements were not identified by KMPG (Bhaskar, Flower and Sellers, 2019). Moreover, the findings also exhibit that Carillion paid £63 million in dividends to the shareholders from 2012 to 2016. Also, there were several errors in recognising liabilities and revenues made by Carillion concerning other construction agreements alongside accounting treatment of goodwill. In this regard, KPMG was not able to fulfil its role as an auditor to disclose such errors in the financial statements of the company (Sweet, 2018).

The findings revealed that a complaint against KMPG was made for £1 billion in damages concerning the shareholder's pay-outs, expenses, and consulting fees as Carillion remained operative. After the fact that KMPG severed the company for the last 19 years and received a whopping remuneration of more than £29 million in respect of the audit services, the actions undertaken by the auditing firm resulted in the misrepresentation of the accounts of Carillion for an amount of over £800 million from the period 2014 to 2016. The findings also suggest that KMPG failed to react to several red flags in the company. Therefore, the judgement was passed to make KMPG liable for the damages caused to the debtors of Carillion, although KMPG refuted the allegations by stating that it had no base (BBC, 2022).

Additionally, it has been identified that the "*Financial Reporting Council (FRC)*" alleged KPMG for providing misleading and false information during the audit investigation of Carillion. The former partners of KPMG, namely; Stuart Smith and Peter Meehan, will also face disciplinary tribunal after the FRC lodges the complaint. The corporate failure of Carillion has been considered as most considerable in the UK in the past decades, and thereby investigation was undertaken by the FRC, the National Audit Office, and Parliament. The investigation revealed that KPMG provided misleading information and documents to the FRC concerning Regenersis's 2014 accounts audit and Carillion's 2016 accounts audit inspection (Turner, 2021).

4.3 Discussion

In alignment with the first objective of Carillion's failure, it is discussed that the company adopted various practices to present false finance information, which in turn failed the company. The company used a supply chain financing plan and window dressing as a part of manipulative practices for reflecting wrong and unfair finance information to the stakeholders of the company. Besides this, the discussion also reflected that adopting practice for overstatement of profits and reverse factoring approach had increased the debt burden on the company. The same is also supported by King (2018), wherein the author stated that the key reason behind the failure of the company is high debts and its inability in getting further credit from financial institutions (King, 2018). Additionally, the discussion also revealed that the debt f the company was increased sharply in the year 2016. The debt-to-equity ratio of 5.3 reflects that the company possesses debts five times higher than its equity. The report published by Kollewe also supports the same, exhibiting that the company is mainly relied on or dependent on large contracts. The underperformance of contracts has increased the company's debt levels by almost £900 million. The company requires a cash injection of £300 million with immediate effect; however, financial institutions and banks lag in providing any financial support to Carillion. It was the critical reason that forced the company to liquidate (Kollewe, 2018). Moreover, a large portion of revenues for dividend payments and shortfall in the pension system are also some of the other key reasons that opened the path of liquidation for Carillion.

Additionally, it is also discussed in the presented research study that identification of fraud cases is quite typical for one as accountants use unique or advanced techniques for manipulating accounting records (Jan, 2018). Another study supports the same, wherein it is identified that accountants of the business entities adopt several techniques such as asset misappropriation, corruption, and financial statement fraud to manipulate accounting records

(Burgess, 2016). Further, the fraud activities involve manipulating accounting records to present a better image of the companies. The accountants manipulate financial items to present better companies' health conditions (Kanapickienė and Grundienė, 2015). The same is also supported by (Nguyen, 2010), wherein it is exhibited that accounting fraud refers to the manipulation of the financial statements for presenting the false appearance of businesses' financial health. The companies adopt various practices such as overstatement of business revenues, not disclosing all expenses, higher valuation of assets, or hiding liabilities for committing fraud (Nguyen, 2010).

It is discussed that the overestimation of revenues and underestimation of expenses is the most common practice adopted by companies for conducting fraud. The company, namely Enron's case, was also discussed in the research, wherein it is identified that the company was indulged in reporting reckless use of derivatives and ineffective trading practices. The company's scandal resulted from massive accounting fraud, which raised huge penalties on the company and its auditors (Bhaskar, Flower and Sellers, 2019). In alignment with the same, the report published by the Financial Reporting Council (2022) exhibited that the *"Executive Council of the Financial Reporting Council"* has imposed several sanctions on both Franklin and KPMG LLP for carrying out an audit for *"Revolution Bars Group Plc"*. In this case, Frankish performed the auditor role for KPMG despite having a position as a partner in the firm. In the same case, Council has imposed several sanctions against Frankish, such as sanctions of £50,000 and severe reprimand.

On the other hand, Council has also taken massive sanctions on auditor firms, namely KPMG LLP. Some of the critical sanctions imposed by the Council on KPMG LLP are financial sanctions of £1250,000, severe reprimand, and others (Financial Reporting Council, 2022). In the case of Carillion also, KPMG sued for almost £1.3 billion (Jolly, 2022). Overall, it can be inferred that the manipulation in accounting entries can be seen as one of the critical reasons behind corporate scandals. It affects monetary losses and hamper the business operations and thereby lead to the liquidation of companies.

The findings in the alignment of the research objective suggest that Carillion failed in declaring depreciation in the financial statements. Further, the company struggled to explain the acquisitions made in past years. As a result, the amount of goodwill was reflected under the financial statements even after Philip Greene admitted that the acquisition was an error (Smith, 2018). In support of this, it can be discussed hereunder that there was a lack of sufficient testing implemented to test the cash flows reliability in the context of the goodwill during the period 2014 to 2017. It was identified that goodwill signifies 84% of the company's balance sheet.

Also, the management of Carillion decided that goodwill impairment was not necessary, as stated under the 2016 accounts of the company (Shoaib, 2018).

Further, it can be discussed that the company goes into compulsory liquidation after reporting a total debt of more than £1.15 billion along with half a billion of shortfall in pension. Additionally, the company was awarded numerous contracts by the UK government worth £2 billion despite three profit warnings issued by Carillion in the last six months. The company compromises the pension rights and workers' pay, and as a result, legal action was encountered (Dundee Press Agency Ltd, 2018).

In support of the findings, it can be further discussed that Carillion buckled under a whopping debt pile of more than £1.5 billion. Several discussions were conducted between the government, lenders, and the company to save Carillion, but no deal was finalised. As a result, the company went into liquidation due to substantial financial troubles and caused disruptions into many government contracts held by Carillion, such as managing schools or developing hospitals. Additionally, around 20,000 employees lost their job as a result of the liquidation of Carillion (Thomas, 2018). It can also be discussed that corporate failures affect employment drastically as thousands lose their jobs. Therefore, it can be inferred that the accounting and auditing system of the UK for numerous business entities is not adequate and fit for purpose, which in turn affects the jobs of the workers. In the context of Carillion, the annual sales of the company were £5.2 billion but failed due to £7 billion of debts. It has also affected around 450 projects of the public sector that witnessed costs escalation or delays. The Official Receiver even claimed that the corporate failure of Carillion was the largest in the UK and cost around £150 million to the taxpayers. Despite such debts and issues, the chief executive of the company earned over £1.5 million, including a bonus of £591,000 in 2016 and even received a salary until 2018 of £660,000 (Neate and Davies, 2020).

Additionally, to support the findings, it can be discussed that the auditors of Big Four, namely; KMPG and Deloitte, have missed the pension deficit, red flags, and aggressive accounting in Carillion. It resulted in the liquidation of the second-largest construction firm in the UK (Shoaib, 2018). The company was even blamed for a recent train crash that took the lives of three passengers (Prior, 2022). However, the auditors' lack of efforts and due diligence are the critical reasons for the failure of Carillion. Recently, the ex-partner of KMPG blamed several junior colleagues during the tribunal investigation for misleading regulators (Jolly1, 2022).

4.4 Summary

From the above thematic analysis and discussion, it can be summarised that Carillion purposely used aggressive accounting to manipulate the financial statements of the company, which in turn resulted in huge debts and pension deficit. Furthermore, the role of an auditor was also compromised as KPMG was not able to investigate the critical matters of Carillion and its liquidation.

Chapter 5: Conclusion and Recommendations

5.1 Conclusion

From the results of this study, it has been indicated that internal audit failure or financial fraud has a drastic negative effect on the long-term growth of corporates. In the case of Carillion's failure, deception in the financial figures, such as profits and reversed factoring arrangements to influence cash flows calculations were intentional acts for personal gains and eventually resulted in bankruptcy. The company's market reputation was the reason for the solid financial statements and performance in the previous years. For the purpose of fraud, false information about goodwill was the big reason for the deteriorated performance. All these wrongdoings in the case of Carillion were purposely taken to maintain reputation instead of concerning the shareholders, investors and creditors' interests.

It can be concluded that Carillion's practice or approach of hiding debt or liabilities as part of revere factoring to sustain a sound financial position was also against accounting rules and transparency. In general, these research findings based on secondary studies suggest that wrong acts for the reputation value maintenance in accounting are in favour of personal gains for the short term. However, it negatively affects the financial growth of corporates in the near future or the long run. Based on the study results, it has been reflected that robust auditing practices in compliance with the accounting rules and principles should be given priority. It can be concluded that producing false financial data by adopting various practices was the ultimate reason for the failure of Carillion. The identified manipulative practices in the chosen financial scandal were mainly window dressing, reversed factoring and supply chain financing, as identified from the thematic analysis. An increased debt in the company's financial statement as the outcome of profits overstatement and revere factoring was a critical concern and significant flaw on the part of the auditing team.

In a general context, the debt of a company should be lesser and equivalent to the equity in the capital structure in the context of solvency. Thus, in the case of Carillion, the 5:3 debts to equity ratio were shocking information that raised the debt burden on the company and bankruptcy as a whole. False information in the financial statements and reports with hiding liabilities has intentionally reflected fraud and raised a question about the internal auditors' and directors' integrity. The current data explored in the context of the case has highlighted the importance of the strict regulations on the acts of the internal auditors and the requisites for the changes in the regulation over auditors. In general, the research results have indicated that the purpose of auditing is to reveal hidden facts instead of hiding any crucial information. Thus, reforms in the auditing practices and control over auditors are more critical for the financial regulators.

It has also been identified in the context of the Big Four Companies that are accountable for the Carillion fraud that the role of external auditors is to be promoted in the context of transparency. In a similar context, it can be concluded that aggressive accounting, red flags and pension deficit were also critical areas associated with the failure of Carillion. Big Four Companies' role in the failure of Carillion cannot be overlooked because both efforts of auditors and diligence were found a mission in the case of the Carillion scandal that can be reflected as the key reasons. In particular of the failure of Carillion, conclusions can be drawn that the whopping debt and misrepresentation or omission of depression were the reasons for failure and bankruptcy even after the company's good reputation and value in the construction industry.

The external auditor's inefficiency in the context of investigating Carillion's matter for bankruptcy is also a critical area to be worked on. It investigated to promote an auditing system so that auditing fraud and its impact on financial companies can be prevented to secure shareholders' rights and interests. Based on the overall findings, it can be concluded that Carillion's failure could have been prevented by the strict monitoring and control over auditors' acts and by promoting the involvement of the external auditors. In this research study, certain limitations have been found in relation to the subject of internal auditing, the ineffectiveness of the accounting rules and financial regimes that are liable for controlling auditors' acts and transparency of the financial reporting. Another limitation of this work was the inclusion of secondary facts that have been prevented from inferring new and empirical knowledge in the context of financial frauds. Overall, it can be concluded that Carillion Scandal due to financial statement fraud was because of internal auditing inefficiency that should be stringent with the recent reforms in the FCR and auditing governance authority.

5.2 Recommendations

5.2.1 Recommendations for the Corporates and Accounting Firms

From the secondary-based findings of this dissertation, it has been inferred that various courses of action and reforms will be needed in the system for controlling financial misconduct and intentional omission and misrepresentation in the financial statements. It is done to secure and reveal a favourable position in the eyes of investors and shareholders, and the general public. One of the required reasonable approaches to tackle the issue of internal audit or financial fraud could be strict accounting rules and government intervention in matters of financial misconduct. In addition, the Audit, Reporting, and Governance Authority ("ARGA) should be integrated into the system to define the specific duties of all corporate directors (Fletcher, Awolowo and Garrow, 2021, p. 7).

Accounting rules would control over wrongdoings and acts of the internal auditors and financial managers and ultimately secures the general public and stakeholders' interests that were severely affected due to such deception or window dressing in the financial reports that endlessly caused the bankruptcy. Furthermore, the government should bring some strict penalties in managing a secure and robust internal control system that follows principles of transparency, integrity, accountability and legitimacy laws (Horvart and Lipičnik, 2016). External auditors' efforts would also be needed in relation to controlling internal audit fraud and wrong practices/approaches for the intentional cheating with the stakeholders. The involvement of the external auditors would be favourable to preventing the loss of people and investors' trust and worsen market liquidity and capital obstructions in the public projects and unemployment issue (Neate and Davies, 2020).

In the case of Carillion, the direct involvement of the Big Four Companies in the financial fraud would be delimited with the support of external auditors and a strict monitoring system. Financial regulators' involvement could also prevent this internal audit fraud and situation of the financial crisis to a reasonable extent. Fletcher, Awolowo and Garrow (2021) also emphasised the involvement of the central authorities. In relation to this, the "holistic four-factor model" is suggested to encourage the participation of the regulators, auditors (internal and external), directors and shareholders (p.3). It would be needed to control the conduct of internal auditors and directors and their intentional acts for personal gains. The corporates should be given priority to the development and follow-up of the holistic model for an efficient audit policy.

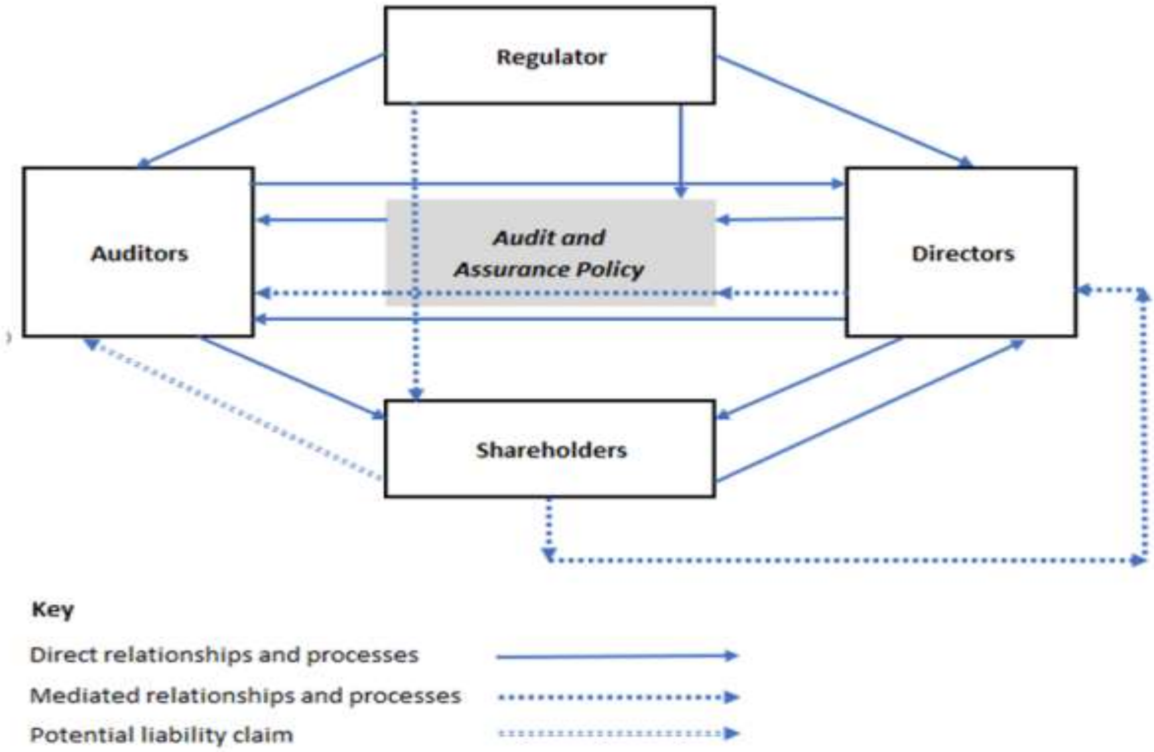

Figure: Holistic Model (Source: Fletcher, Awolowo and Garrow, 2021)

After the bankruptcy of Carillion, various important reports were accredited by the UK government, including CMA, Kingman and Brydon's reports. These reports have highlighted significant flaws in the current audit regulations, such as "the Financial Reporting Council (FRC)" ineffectiveness in relation to meeting its vision or purpose (p. 1). Besides this, traditional auditing practices' ineffectiveness was also revealed in this report. In the aftermath of this financial scandal, it has been exposed that the purpose of the audit has lost its purpose of presenting accurate information. The enactment of the "new audit profession" under the regulation of the FRC is the best action in this direction, along with various other suggestions, including statutory audits and more comprehensive audits for fraud investigation and control (Fletcher, Awolowo and Garrow, 2021). Overall, these are various essential changes to be essentially made in the existing auditing process or system for fraud control.

5.2.2 Recommendations for the Future Researchers

Future researchers would improve this work by integrating various suggestions, including the inclusion of the primary data collection method. An interview would be preferred for getting views of auditors in the context of internal audit and financial fraud, to know their views. This method would be considered to collect detailed data and own viewpoints based on knowledge and experience. The survey would also be conducted with investors and the general public to know their views of financial fraud, accounting rules and government actions. The survey would be good to get views of the larger sample and conduct quantitative analysis in the context of the research subject (Bell, Bryman and Harley, 2019).

5.3 Future Implications

For future practice, dissertation findings have a number of significant implications, such as collecting data about the Carillion financial scandal would be used to develop a new auditing regulation model to control leading corporates to avoid effect on the interests of associated stakeholders. Moreover, in the generalisability context, the findings of this study would be implied in the case of the financial auditing, monitoring and controlling of other firms to control financial deception.

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