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## Article

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# Financial auditing during crisis: Assessing and reporting fraud and going concern risk in Lebanon

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## Abstract

**Research Question:** What is the impact of the Lebanese crisis on the financial auditing mission, mainly during assessing and reporting fraud and going concern risk?

**Motivation:** So far, the academic research covering the Lebanese crisis is still rare. Hence, the spillover of the financial distress is an under researched area. Our aim to investigate the impact of financial and economic disruption on financial auditing mission, together with assessing and reporting fraud and going concern risk is an important contribution to risk literature.

**Idea:** The article examines the impact of the Lebanese crisis on financial auditing mission, mainly during assessing and reporting fraud and going concern risk. More specifically, based on fraud triangle theory and bankruptcy theory, this study investigates the response of Lebanese financial auditors to the increase of fraud and going concern risk during crisis.

**Data:** The questionnaire survey was used to collect responses from 239 external and internal auditors.

**Tools:** Univariate descriptive statistics have been used to describe the respondents' profile, the Principal Component Analysis (PCA) as a data reduction method and the Kendall's Tau - B, Anova and Logistic Regression for hypotheses testing.

**Findings:** The empirical study suggests the presence of a significant relationship between the propagation of fraud and the going concern risk. Facing this situation, Lebanese financial

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auditors modified the audit reports, by issuing a going concern opinion through the adoption of a hierarchical system based on the severity of the assessed risk.

**Contributions:** The research illustrates how regulators, shareholders and several bodies can effectively evaluate financial auditors' roles during crisis, especially in terms of fraud and going concern risk. Additionally, the findings invite several bodies to never separate fraud from going concern principle during the evaluation of the trustworthiness of financial statements, and the overall credibility of business continuity.

**Keywords:** Crisis, financial auditing, fraud, going concern, audit report.

**JEL Classifications:** G01, H12, M42

## 1. Introduction

The crisis situation amplifies the entities' vulnerability to several types of risk, mainly the fraud propagation and corporate failures. Previous listed risks are often correlated, considering that the engagement in fraudulent operations deteriorates the companies' reputation, erodes investors' trust in published financial statements and can lead to bankruptcy. Reciprocally, fraudulent practices, especially the misreporting, is often used to hide entities' going concern issues (Blomme, 2021). According to the World Bank report (Al Saeed & El Khalil, 2021), the Lebanese crisis has been qualified as "the most severe global crisis since 1850", due to its contribution in affecting humans' life and companies' system. While management is struggling to assure survival conditions, the entities' third parties are counting on intelligent financial auditing to promote transparency and accountability of published financial statements, affected by the propagation of fraudulent operations and the appearance of critical business failure indicators. Recently, even more than previous years, as companies combat multiple challenges related to increased uncertainty, management might be in ahead in contexts where heightened financial auditing and scrutiny in areas of fraud and going concern risk.

Black's Law Dictionary has presented an accurate definition for fraud and going concern risk. First, fraud has been defined as an intentional falsification of the truth or dissimulation of a material fact leading another to act according to the fraudster's own interest. On the other hand, going concern principle is considered as a company's ability to operate in the foreseeable future, in the same present manner without any sign of possible liquidation (Garner, 2009). Over the past decades, financial losses due to fraudulent operations threaten the efficiency and stability of worldwide entities (Amiram *et al.*, 2018). Among the fraud forms, Mukhtaruddin *et al.* (2020) describe the fraudulent financial statements as the most difficult type to be detected, and the most dangerous illegal act due to its global impact on a country's

economy. Hence, the effective detection of fraud in financial statements becomes a necessity to be prioritized. During the study explaining the contribution of fraud Pentagon theory on detecting fraudulent financial statements, Devi *et al.* (2021) briefly indicated that late detection of fraudulent financial statements is harmful for the whole entity and can lead to bankruptcy. Recently, financial strains underlying the current crises, provide a breeding ground for the propagation of insidious fraud schemes able to enhance the risk of deliberate deception, especially where there has been inattentive investors during the evaluation of the business continuity. Consequently, this short-term solution to maintain investors' confidence in companies' performance (Yendrawati *et al.*, 2018) represents the main reason behind the deterioration of bankruptcy prediction accuracy, and the advent of economic risk such as a going concern. (Deloitte, 2020). This study investigates the insufficient development of the relationship between fraud and the business continuity. Furthermore, the analysis of the impact of this relationship on financial auditing opinion represents an interesting field of investigation.

Empirical studies related to the assessment and reporting of fraud and going concern risk have been developed by several scholars such as Alrawashedh *et al.*, 2020; Blay *et al.*, 2011; Chong, 2013; Cordos and Fulop, 2015; Kassem, 2019; Mareque *et al.*, 2017; Moalla, 2019; and others. Commentators focus on "what" and "how" auditors do to assess and report whether published financial statements are free from material misstatements due to fraudulent operations, or going concern uncertainty indicators, without investigating the emerging relationship between the two concepts. Recently, Abu Bakar & Bin Yahya (2021) findings confirm the contribution of financial information fraudulence in decreasing bankruptcy prediction reliability without extending the line of research in order to explore the influence of previous listed risk on the financial auditing field mainly the issuing of a going concern opinion. On the other hand, the results of Cellica and Kurnia (2016) verify the relationship between the bankruptcy prediction model and the auditors' going concern opinion without introducing the fraud risk. Hence, this research is important to complete previous studies by investigating the impact of the propagation of fraudulent acts on going concern assumption with the expanding of the study's investigation to the examination of the impact of the emerging relationship on financial auditors' reports.

Since 2019, Lebanon is in a state of continuing upheaval. The Lebanese economy suffers from acute financial distress. The crisis provides a challenging environment for companies and their auditors, specifically with the propagation of fraudulent operations that deteriorate the accuracy of bankruptcy prediction and negatively affects the authenticity of going concern principle. Generally, the crisis increases client's business risk and consequently auditor's efforts to respond to increased risk (Xu *et al.*, 2011). So far, the academic research covering the Lebanese crisis is still rare. Hence, the spillover of the financial distress is an under researched area. Our aim to investigate the impact of financial and economic disruption on financial auditing mission, together with assessing and reporting fraud and going concern risk

is an important contribution to risk literature. We explore the relationship between fraud and going concern risk through the introduction of the bankruptcy prediction accuracy variable. We designed a questionnaire, to examine how Lebanese financial auditors respond to the crisis when assessing and reporting fraud and going concern risk. Due to the dissemination of harmful consequences of the crisis, the risk of audit failure becomes greater considering that it's more difficult for auditors to obtain sufficient appropriate audit evidence to reduce identified audit risks to an acceptable level. Consequently, the cooperation between external and internal auditors is deemed intrinsic in order to collect more evidence concerning the propagation of fraud and corporate failure risk. In view of auditing cooperation needs, the broad the scope of the investigation to cover external and internal auditors, is an appropriate research method for the study's aims. For example, the questionnaire includes internal auditors' views, as well as posing questions on the role played by the external auditors during crisis eras by suggesting that the latter constitute a primary partner for shareholders interests' protection and activities rebooting.

The aim of the paper is threefold. First, to improve the knowledge towards fraud and corporate failure risk that lead to second, to investigate the possible relationship between the fraudulent financial statements and the deterioration of the firms' bankruptcy prediction accuracy. Thirdly, the objective is to examine the response of financial auditors to the emerging relationship associating the propagation of fraud to the going concern risk during the Lebanese crisis. Thus, what is the impact of the Lebanese crisis on the financial auditing mission, mainly during assessing and reporting fraud and going concern risk?

The research is organized in four sections. It begins with a global literature review followed by the development of hypotheses tested in the second section during the empirical study. Subsequently, Findings and discussions are introduced in the third section. Finally, concluding remarks are drawn.

## **2. Literature and theoretical reviews**

Over the past decades, fraud and going concern themes have been the subject of substantive research. The following section presents first, a general review describing the impact of the crisis situation on fraud propagation and corporate failure risk. Following that, the researchers expand the literature to explore the relationship between the financial statement fraud, and the deterioration of firms' bankruptcy prediction accuracy that highlights the necessity of evaluating the degree of respect of going concern principle. Finally, we review the financial auditors' responses to the assessed relationship between fraud and going concern risk. Additionally, we position the discussion using the theoretical frames mainly the fraud triangle, and the Bankruptcy theories from which the competences and skills are identified.

## **2.1 The impact of crisis situation on fraud propagation and corporate failure**

The major financial scandals underlying the crisis prove that the trustworthiness and fairness of published financial and accounting information constitute the main wish of companies' stakeholders (Robu *et al.*, 2012). Butcher (2020) states that the crisis period provides suitable conditions to perform unethical behaviors and fraudulent operations. Therefore, the different aspects of the disruption situation engender unexpected shock to the global economic and financial system and accelerates the propagation of insidious aspects of irregularities. To be more specific, the economic downturns proliferate pressures that represent strong motives to the commitment of fraud. Additionally, financial strains amplify the temptation of financial statements' manipulation in order to meet business targets (Abu Bakar & Bin Yahya, 2021). Along the same line, the Covid-19 pandemic and the generalization of the remote working provoke the expanding of new fraud categories through the limitation of information access and effective control (Zhu *et al.*, 2021). The impact of the crisis situation on fraud propagation has been justified by Vousinas (2019) who believes that the economic recession and the financial strains create significant incentives for embezzlers to engage in unethical activities. The literature has reported several levels of fraudulent acts escalating from breaking accounting principles to earning management practices and completed by the hidden of several illegal actions leading to bankruptcy (Mukhtaruddin *et al.*, 2020). In general, fraud can be described in a form of a tree composed of three branches namely "Asset Misappropriation, Financial Statement Fraud and Corruption" (ACFE, 2020). As perceived by previous research, the different aspects of fraud constitute a crucial issue able to affect the companies' global activity, especially during a crisis period (Vousinas, 2019).

In general, the achievement of an efficient evaluation of the entities' performance requires the examination of the existence of the going concern basis indicators. Previous research has revealed that the recurring losses, the absence of different sources of revenues, mainly the sales' reduction and the liquidity crisis due to negative cash flow, constitute the most important indicators of corporate failure (Mareque *et al.*, 2017). In addition, other authors have considered that financial difficulties (loan defaults, debt restricting...), internal matters (work stoppages, significant revision of operations, layoff...), negative trends (negative cash flow, recurrent losses, etc.) and external matters (Loss of franchise or suppliers, natural disasters...) indicate substantial doubt of the entity's ability to continue as a going concern (Gearty *et al.*, 2017). Over decades, worldwide researchers have developed the theme of going concern and the general conditions to properly predict the corporate failure (Blay *et al.*, 2011; Gaeremynck & Willekens, 2003; Mckeown *et al.*, 1991; Vanstraelen, 2003; and others). However, some cases prove that the business failure isn't only related to the financial distress. Hence, as argued by Hopwood *et al.* (1994), the unpredicted bankruptcy is mainly related to the propagation of management fraud. Consequently, the association between fraud and

going concern risk by assessing the firms' bankruptcy prediction accuracy engenders a significant theme deserving to be discussed.

## **2.2 The impact of financial statements fraud on firms' bankruptcy prediction**

Financial statements, prepared and published in a particular year, describe the companies' financial activities and allow their users to make strategic decisions (Bushman & Smith, 2001). In recent decades, the fraudulent financial statements practices have considerably increased. Hence, the published accounting and financial information no longer reflect the entities' fair value. Prior research has shown that financial deception is more likely to occur in distressed firms suffering from a high level of probable bankruptcy (Abu Bakar & Bin Yahya, 2021). Additionally, as reported by Camacho-Minano & Campa (2014), the financial distressed firms are more likely to apply sophisticated tricks able to enhance the entities' financial and economic performance in order to postpone their actual failure. Therefore, the misleading financial statements reduce the bankruptcy prediction accuracy through the sacrificing of the integrity of published information across the use of earning management practices or the manipulation of several accounts that aim to ameliorate the companies' financial landscape in order to assure their survival. In general, accounting variables constitute the basis of firms' bankruptcy prediction. However, in order to assure companies' burgeoning, financially distressed managers intentionally adopt the "window dressing" strategy aiming to manipulate accounting variables, related to expenses or incomes, for the purpose of achieving the earning benchmarks and business targets (Nagar & Sen, 2017). In addition to this issue, financial auditors, considered as a protector of third parties' interests, must issue an early warning of possible business failure, by taking into consideration several evidences collected during the financial auditing mission.

## **2.3 Fraud and going concern risk under the microscope of financial auditors**

In a crisis period, it is impossible to detect all fraudulent operations and predict all corporate failures. Nevertheless, a high quality of financial auditing mission would enable companies' management to prevent several illegal acts and to better manage their negative effects. Auditors' responsibilities for assessing and reporting fraud and going concern risk have generated a global matter analyzed by the international standards of auditing (ISA). By referring to ISA 210 called "*Terms of audit engagements*", it was clearly stated that the direction is responsible "*for the maintenance of adequate internal controls and safeguarding assets of the company*" (IAASB, 2009a). However, the comprehension of the auditors' fraud responsibility has been emphasized by ISA 240 entitled "*The auditor's responsibility to consider fraud in an audit for financial statements*" which considered that the assessment of material misstatements due to fraud represents the main role of financial auditing

mission (IAASB, 2009b). Several research papers discuss the ability of financial auditors to detect and prevent fraud. Among these studies, Alleyne & Howard (2016) find that the detection of fraudulent operations is interrelated with the effectiveness of both, internal control system and the audit committee. In a related study, Alrawashedh *et al.* (2020) point out the role of the strong internal control system in reducing the probability of fraud propagation. In the same line of study's concept, Knapp & Knapp (2001) discover that the auditors' experience constitutes the main factors affecting the ability to detect fraud. In sum, as reported by Blomme (2021), to properly assess and report the material misstatements in financial statements, financial auditors must refer to the risk based approach in order to consider the events and conditions that constitute a pressure or an opportunity to commit fraud.

Concerning the second study's theme, a going concern principle is considered one of the most important concepts underlying financial auditing (Gray & Manson, 2008). During an economic or political crisis, the financial reporting must shed light on issues threatening the entities' ability to remain in business in the foreseeable future. The description of auditors' responsibility for going concern is clarified in ISA 570, "*Going Concern (revised)*", where it is stated the necessity to assess and report the adequate application of business continuity assumption (IAASB, 2017). Regarding the going concern published research papers, Mareque *et al.* (2017) and Xu *et al.* (2011) describe the global financial crisis as the catalyst engendering renewed interest in audit profession and increased level of reports relating to going concern assumption. In addition, the relation between the bankruptcy and the going concern opinion was reflected in Blay *et al.* (2011); Geiger *et al.* (2014); Rickling *et al.* (2020) studies which document that the issuing of going concern opinion is noticed as a prior communication of future bankruptcy risk of distressed firms. Carey & Simnett (2006) believe that due to the assessment of financial decline, the issuing of going concern's opinion is shown as a proxy of financial auditors' performance. Along the same line, Casterella *et al.* (2000) alarm that the sudden bankruptcy of an entity that has received an unqualified audit opinion is a sign of the weakness of the audit procedure. Accordingly, the modification of the audit report triggered by continuity issues, alerts companies' stockholders of earning management practices threatening the entity's profitability and financial performance (Cordos & Fulop, 2015). The choice between the different types of modified reports is correlated with the level of severity of going concern risk (IAASB, 2016).

## **2.4 Theory - Based Framework**

### *2.4.1 Fraud triangle theory*

Various theories seek to analyze the existing causes behind the engagement in fraudulent behavior. In general, as explained by fraud perspectives, especially the fraud triangle theory, the lack of prior prevention and detection of irregularities interferes with the co-existing of other factors that provide fertile ground to commit



and conceal illegal acts. Vousinas (2019) describes the fraud triangle as the most widely used model explaining fraud factors. The fraud triangle theory put forward by Cressy (1953) and later expanded by Horwarth (2011) is introduced in our research as the reference of fraud model. According to Tickner's & Button's (2021) conclusions, Cressy (1953) developed the earlier study of Riemer (1941) by focusing on "trust violators" behaviors in order to find an answer to the question: "What drives people to commit fraud?" Conforming to Cressy's conclusions, three factors must be present for the occurrence of fraud acts: "Incentives (or Pressures), Opportunity and Rationalization". Noting that the likelihood to commit fraudulent operations amplifies with the co-existing of previous listed factors. First, Incentives to commit fraud differ for each person. However, the economic recession and financial decline create common motives. Concerning the second fraud factor, the lack of effective control provides golden opportunity to fraud propagation (Le Maux & Ben Amar, 2013). Hence, the crisis situation forces management to reduce headcount and limit control parameters in order to contain expenses and reduce financial loss. In addition, it is necessary to note that the spread of the Remote Working during Covid-19, increases the possibility of management override of controls. That is, the fraudster has perfect occasion to reduce the possibility to be catch. Moreover, the most important factor of the fraud triangle is rationalization. This factor expresses the attitude of justifying fraudulent behaviors. Thus, Cressy considers that the perpetrator rationalized his acts by viewing himself as a Non-Criminal. In sum, the relation between the three factors can be explained as following: Opportunity factor provides a suitable environment for fraud propagation, while pressure and rationalization justify the reasons behind the commitment of illegal acts. According to Devi *et al.* (2021) and Mukhtaruddin *et al.* (2020), the three components of the fraud triangle mutually support each other and enhance the chance for embezzlers to commit irregularities. In addition, Abdullahi & Mansor (2015) qualify the fraud triangle theory as the first investigation way of fraud motives. In the same line of reasoning, Vousinas (2019) states that the Cressy's theory gives a useful but non exhaustive view of the nature of occupational offenders. Along the same vein, Dorminey *et al.* (2010) believe that the fraud triangle is one of the famous model used in assessing fraud risk that must be completed by a list of procedures such as the evaluation of the internal control, the specific evaluation of fraud risk, the modification of audit strategy and procedures...

#### *2.4.2 Bankruptcy theory*

Regarding the main objective of the study manifested by the verification of the significant relationship between the fraud propagation and the going concern issue, the researchers refer to the bankruptcy theory. Both, the issuing of going concern opinion and the bankruptcy prediction models (Altman, 1968; Ohlson, 1980; ...) can be used to estimate the business failure. In the current study, we will focus on the financial auditors' evaluation of the bankruptcy risk through the modification of the audit reports for going concern issues. Although the financial auditing mission is not

intended to predict accurately the bankruptcy risk, the users of financial statements consider that a modified audit opinion is an alert of possible failure and the unmodified audit opinion is “a clean bill of health” (Cybinski, 2005). Several studies from various country associate the prolonged financial and economic distress to the bankruptcy risk (Butler *et al.*, 2004; Carson *et al.*, 2013; Kim, 2018; Pompe & Bilderbeek, 2005). By looking for the specific reasons leading to business failure and its impact on financial auditing mission, the study of Abu Bakar & Bin Yahya (2021), confirms the relation between the propagation of fraudulent acts and the bankruptcy risk, while the research of Cellica & Kurnia (2016) states the contribution of the enhancement of the bankruptcy risk on issuing going concern opinion. Hence, if bankruptcy’s signs are detected, financial auditors adopt hierarchical system for reporting the going concern risk by choosing an unqualified report with explanatory paragraphs, a qualified opinion, an adverse opinion or a disclaimer of opinion. The above mentioned information helps the design of a conceptual framework that constitutes the basis of the hypotheses development.

### **3. Conceptual framework and hypotheses**

To position the study’s conceptual framework and the formulation of hypotheses, it is important to first examine the principal competences and skills used to measure the different concepts of the research:

#### **3.1 Fraud propagation: the coexistence of pressure (incentive), opportunity and rationalization**

As mentioned in the literature review, the crisis situation encourages fraudsters to engage in unethical behaviors as a consequence of the coexistence of fraud factors. Concerning the pressure element, Albrecht *et al.* (2008) prefer to use the word “Perceived pressure” due to the unreal characteristics of the incentives encouraging the fraud commitment. Various studies classify incentives in financial and non-financial categories, such as financial problems, personal and family debt, corporate pressure, large expenses, position achievement, drug addiction etc. (Vona, 2008; Abdullahi & Mansor, 2015). In general, during the economic and financial crises, the cash flow disruption and the impossibility to meet shareholders targets amplify the companies’ pressure to commit several types of fraud especially the manipulation of financial statements. Regarding the Opportunity factor, the weakness of the internal monitoring is considered as the key motive to perpetrate fraudulent activities. Therefore, according to Cressy (1953), the fraud is more likely to take place with the low probability of being caught. So, the ability of embezzlers to override fraud controls refers to the weakness of the organizational system characterized by an inadequate segregation of duties, an ineffective control or even an irregular auditor mission. In general, the engagement in unethical activities, especially the misreporting, can’t take place without the existence of an opportunity.

Hence, the Covid-19 disease and the generalization of the remote working provide a breeding ground for the override of controls and escalate the different types of irregularities especially the financial statement fraud. By passing to the last fraud triangle factor, the rationalization represents the justification that the immoral act is totally far from the criminal action. The presentation of an excuse of the unethical behavior must occur before that the illegal act takes place. Abdullahi and Mansor (2015) pointed out the impossibility to explain the rationalization process due to the perpetrators' particular mindset adopted in the justification of fraudulent behaviors.

### **3.2 Going concern uncertainty: the appearance of corporate failure signs**

The crisis can be responsible of the appearance of multiple conditions and events that may shed light on the business failure and the increase of substantial doubt around the entities' ability to continue as a going concern. It is commonly known that the affecting of the revenue sources, the loan defaults, the work stoppages, the negative cash flow, the recurrent losses, the loss of franchise and license...are all significant alerts of corporate failure (Gearty *et al.*, 2016). In general, the bankruptcy prediction model is used by investors, directors, creditors and financial auditors to properly evaluate the entities' performance and the probability to fail. Noting that the unexpected bankruptcy without the prior noticing of corporate failure signs is more likely driven by the financial statement's fraud.

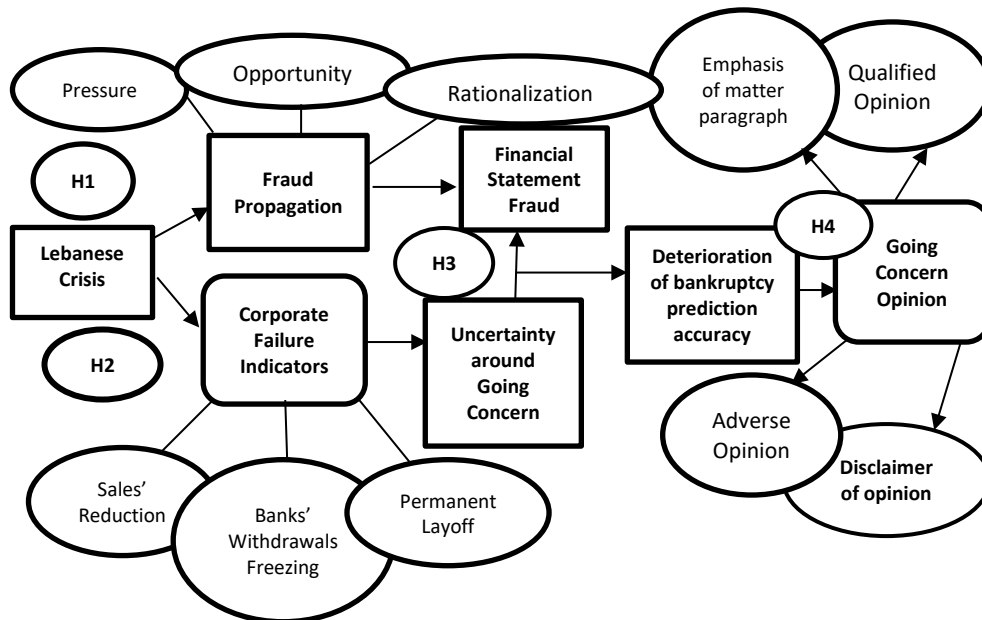
### **3.3 Fraudulent financial statement and bankruptcy prediction accuracy**

Financial statement fraud represents an intentional misreporting of the entities' financial situation in order to deceive financial statement users. This type of fraudulent operations includes the results' manipulation, the falsification and the adjustment of accounting operations or the use of wrong financial and accounting principle (Mukhtaruddin *et al.*, 2020). During a crisis situation, the appearance of significant business failure indicators and the amplifying of the going concern uncertainty risk wipe out the managements' ethical behavior through the commitment of several illegal acts aiming the fake amelioration of the entities' viability in order to deceive actual and potential investors and resource providers. Therefore, Abu Bakar and Bin Yahya (2021) argued that the engagement in financial information fraudulence impacts the accuracy of the financially distressed firms' bankruptcy prediction. When this happens, the financial ratios will not reflect the fair value of the company which contributes in misleading the users of financial statements. However, to assume their responsibilities towards third parties, the financial auditors are responsible to accurately assess the emerging risk in order to formulate an independent audit opinion.

### 3.4 The financial auditing assessment & reporting: going concern opinion

The main objective of every audit engagement is the assessment of the entity's ability to continue as a going concern in the foreseeable future. In case of the existence of substantial doubt about the firm's viability, the financial auditor must consider the management's disclosure about the corporate failure and include an emphasis of matter paragraph in the audit report to express his conclusion. However, due to the crisis and its negative impact on the business continuity, many entities inadequately disclose the going concern assumption by committing fraudulent operations. This is mainly the misreporting in order to deceive the users of financial statements. This may result in the issuing of qualified or adverse opinion. Additionally to the aforementioned, based on the professional judgment and the level of the going concern risk, the financial auditor can choose the disclaimer of opinion considered as the most severe response for the assessed risk. After the general presentation of the study's concepts, competences and skills we are able to draw the following conceptual framework:

**Figure 1. The Conceptual Framework of the study**



To conclude, the previous illustration exposes the impact of the economic, financial and health crises on the amplifying of fraud and going concern risk. In addition, the relation between the two study's themes is clearly stated. Hence, financial auditors must respond to the confidence granted by stakeholders through the accurate

assessment and reporting of the increased risk. Therefore, building on the previous literature we enhance understanding of fraud propagation and corporate failure risk theorizing. This is shown via our link with bankruptcy prediction accuracy themes, and the response of financial auditors to the assessed risk. Following this, we can formulate the following hypotheses:

**H1: There is a significant relationship between the crisis situation and the coexistence of fraud propagation factors**

**H2: There is a significant relationship between the crisis situation and the appearance of corporate failure signs**

**H3: There is a significant relationship between the fraudulent financial statements and the deterioration of bankruptcy prediction accuracy**

**H4: Auditors are more likely to issue going concern opinion as fraud detected cases become greater.**

Previous listed hypotheses will be tested in the context of the empirical study.

## **4. Research design and methodology**

### **4.1 Population and convenience sampling**

The title of the article indicates that the Lebanese financial auditors, exclusively external and internal, constitute the target population from which the reasonable sample was constituted. The latest official guide of the Lebanese Association of Certified Public Accounts (LACPA, 2014) was the basis of the external auditors' selection, and stipulates the presence of 1417 certified members. The questionnaire was sent to 329 external auditors that are members of different types of audit firms and 164 internal auditors that are members of financial institutions, listed and unlisted companies. The response rate 161 responses represented 11.36% of the external auditors' population (1417 registered external auditors as reported by the last LACPA report). The internal auditors' response rate was 78 responses collected from the Lebanese branch of the Institute of Internal Auditors (22 responses) and the financial auditors working in different banks, listed and unlisted companies (56 responses). As a total, the number of the survey participants was quite reasonable and guarantee the representativeness of the research.

### **4.2 Data collection and analysis**

A quantitative approach based on the survey method is adopted in order to investigate the impact of the Lebanese crisis on financial auditing mission mainly during assessing and reporting fraud and going concern risk. This type of research was recommended due to the possibility of getting a large number of respondents that assure the generalization of the study's results. Feghali (2015) has qualified the survey method as the basis of information collection. Thus, two questionnaires were

prepared. Each of them contains 30 questions, structured according to the “funnel technique” and divided into two parts, “general background” and “specific questions” concerning the study themes. Based on the theoretical and conceptual framework it is clear that the specific questions of our survey should be organized to cover the themes of fraud, bankruptcy prediction, going concern and audit report during the Lebanese crisis. We must mention that out of 30 questions, 26 were similar for the external and internal auditors and 4 were specific for each of the two samples. In addition, the “consistent improvement approach” (Minnick, *et al.*, 2013) was adopted and produced consistent and clear questions using Likert scale as response options. Due to COVID-19 restrictions, it was impossible to have a physical meeting with the targeted segment. Consequently, the electronic communication via what’s app or email constitutes the main method to collect 239 responses divided approximately between 67% and 33% from the external and internal auditors and ready to be analyzed.

Concerning the data analysis methods, a list of statistical tests are conducted through the SPSS software. Consequently, to describe the respondents’ profile, we begin the analysis with the Univariate Descriptive Statistics which draws the general characteristics of our sample by describing the type of audit firms or entities, age and level of experience. The Descriptive Statistics tests are completed by the Principal Component Analysis (PCA) considered as a “dimensionality – reduction method” aiming the reduction of the initial variables into factors that respond well to the validity and reliability criteria in order to obtain a simplification of the model with the guarantee of the minimum information loss. It must be noted that the principle component analysis confirms the robustness of the study measurement scale through the verification of the factorization, the reliability and the validity of the measurement instruments (Carricano *et al.*, 2010). Additionally to the verification of the data quality, the empirical study is completed by the Inferential Bivariate and Multivariate Statistics mainly the Kendall Tau-B, ANOVA and the Logistic Regression Tests in order to verify the formulated hypotheses.

## **5. Empirical results**

After the collection of the different responses, the analysis phase was launched. Initially, the examination of the first section of the questionnaires gives a general overview of the respondents’ profile. Following that, the hypotheses testing opens the field to an interesting discussion.

### **5.1 Descriptive statistics, survey reliability and principle component analysis**

The first part of the two questionnaires, called “General Information” drawn through 5 questions, presents a general vision of the study’s sample particularity. Initially,

we have concluded that the survey's participants are members of different type of audit firms and entities and have an important educational and experience level as shown below:

**Table 1. The Respondents' Profile**  
External Auditors' Sample

Type of Audit Firms			Education Level			Experience Level		
Big 4	21	13%	Master	90	55.9%	< 5 years	1	0.6
International Non Big 4	52	32.3%	Doctorate	28	17.4%	5<y<10	57	35.4
Lebanese	88	54.7%	CPA	43	26.7%	10<y<20	102	63.4
						>20 years	1	0.6
Total	161	100%	Total	161	100%	Total	161	100%

Internal Auditors' Sample

Type of entities			Education Level			Experience Level		
Banking	28	35.9%	Master	53	67.9%	< 5 years	-	-
Listed companies	4	5.1%	Doctorate	19	24.4%	5<y<10	15	19.3%
Unlisted companies	46	59%	CFA	6	7.7%	10<y<20	53	67.9%
						>20 years	10	12.8%
Total	78	100%	Total	78	100%	Total	78	100%

Just to mention that the big majority of the participants has revealed the necessity of cooperation between the external and internal auditors, especially with the increase of their responsibilities towards stakeholders and managers in times of crisis.

By moving forward through the second part of the survey, called "Specific Information", it is necessary to validate the reliability of the items constituting the two questionnaires. To evaluate the trustworthiness of the questionnaire items, it is required to examine the value of Cronbach Alpha (Feghali, 2015). According to the SPSS results, the internal consistency score of the two questionnaires was consecutively **0.780** and **0.792**. The resulted values have exceeded the required limit of 0.7 set by Nunnally (1978) and spotlighted the notable relation between the items of the study. However, in order to focus on the most significant variables, we have applied the Principle Component Analysis, classified as exploratory tool preparing data analysis by reducing the initial data into axes including a limited number of

totally correlated variables. It must be highlighted that Hair *et al.* (1998) steps for the principal component analysis, also named factorial analysis, was followed in the current study, considering that this approach assures the robustness of the measurement scale introduced in the hypotheses testing. Consequently, the application of the factorization and the reliability tests gives strong evidence of the quality of data composing the research model. Noting that, due to the presence of two samples, the researchers apply a specific principle component analysis for each of the two surveys.

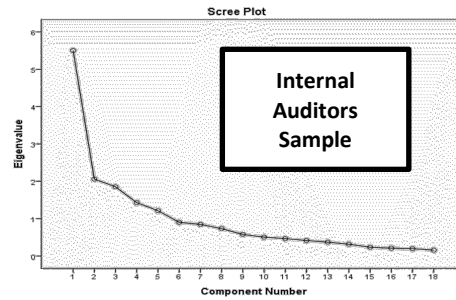
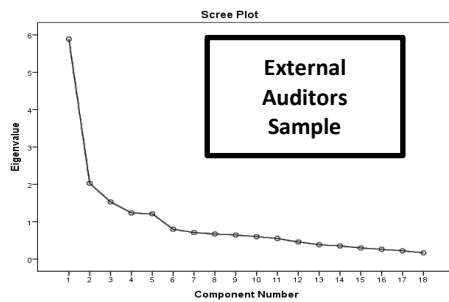
The first step of this exploratory tool is the verification of the possible factorization of the variables into axes by confirming the significant correlation between the different items. According to Hair *et al.* (1998), the verification of the correlation between variables is realized by referring to “Kaiser-Mayer-Oklun (KMO)” or “Sphericity of Bartlett” tests. The first test is used to verify the sample adequacy while the second one tests the null hypothesis of independence between variables. The exploration of the literature indicates that the KMO test is preferable for the evaluation of the sample adequacy in order to evaluate if the data is suitable for “factor analysis and measures what it is intended to be measured” (Carricano *et al.*, 2010). The SPSS software indicates, consecutively for the external and internal samples, a KMO values of **0.826** and **0.779** (exceed the limit of 0.7 sets by Hair *et al.*, 1998). For each of the two questionnaires, the KMO results state that from the total of 25 initial variables, 18 items are totally correlated with the study’s themes and can be introduced in the factor extraction approach. This method is important to organize the totally correlated variables into uncorrelated axes (named factors or components) representing the new explanatory variables to be introduced in the hypotheses testing. The determination of the number of factors and the corresponding variables for each of them require the examination of the “Eigen Value” (Table 2), the “Cattell’s scree plot” (Figure 2) and the “Rotated Component Matrix through VARIMAX method” (Table 3) which engender the distribution of the variables in five axes representing the explanatory variables used in the rest of the empirical study. The results of the aforementioned indicators are consecutively shown below:

**Table 2. The Eigen Values (PCA Analysis)**

Eigen Value (External Auditors)				Eigen Value (Internal Auditors)			
Axes	% of			Axes	% of		
	Total	Variance	Cumulative %		Total	Variance	Cumulative %
1	5.889	32.72	32.72	1	5.470	30.39	30.39
2	2.025	12.25	44.97	2	2.064	11.47	41.86
3	1.530	9.51	54.48	3	1.813	10.07	51.93
4	1.235	7.86	62.34	4	1.505	8.36	60.29
5	1.212	6.73	<b>69.07</b>	5	1.240	6.89	<b>67.18</b>
6	.797	4.43	73.5	6	.918	5.1	72.28

**Figure 2. Cattell’s Scree Plot**





**Table 3. Rotated Component Matrix (For External and Internal Samples)**

Variables	Components (External Auditors)				
	Fraud Propagation (FAC1)	Corporate Failure Signs (FAC2)	Relation Fraud & Going Concern (FAC3)	Financial Auditing Assessment (FAC4)	Financial Auditing Reporting (FAC5)
Increase Of fraud cases	0.867				
Financial/ Economic (Pressures)	0.780				
Covid-19 Lockdown (Opportunity)	0.711				
Lack of personal Integrity (Rationalization)	0.702				
Sale's Reduction		0.834			
Bank Withdrawals Freezing		0.819			
Layoff		0.522			
Deterioration of bankruptcy Prediction Accuracy			0.849		
Deterioration Of Reputation			0.738		
Skepticism about Continuity			0.731		
Specific Evaluation of fraud				0.831	
Evaluation of Internal Control				0.775	
Assessment of Going Concern				0.772	
Modification of Audit Procedures				0.571	
Emphasis of Matter Paragraph					0.794
Qualified Opinion					0.782
Adverse Opinion					0.765
Disclaimer of Opinion					0.641

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Variables	Components (Internal Auditors)				
	Fraud Propagation (FAC1)	Corporate Failure Signs (FAC2)	Relation Fraud & Going Concern (FAC3)	Financial Auditing Assessment (FAC4)	Internal Auditors' Evaluation (FAC5)
Covid-19 Confinement (Opportunity)	0.848				
Increase Of fraud cases	0.777				
Financial/Economic (Pressures)	0.771				
Lack of personal Integrity (Rationalization)	0.695				
Sale's Reduction		0.813			
Layoff		0.657			
Bank Withdrawals		0.642			
Freezing					
The Misreporting			0.868		
Deterioration Of			0.783		
Reputation			0.761		
Skepticism about Continuity					
Evaluation of Internal Control				0.818	
Specific Evaluation of fraud				0.780	
Assessment of Going Concern				0.718	
Modification of Audit Procedures				0.557	
Protectors of Stakeholders					0.794
Decision Maker					0.759
Partnership					0.711
Cooperation External & Internal					0.672
Consulting Role					

## 5.2 Hypotheses testing: validation and discussion

*Ipso facto*, each hypothesis must be validated according to statistical tests' results.

### 5.2.1 Crisis situation as "Backdoor" for fraud propagation

The impact of the economic, financial and health crises on fraud risk in Lebanese companies has occupied the first rank of investigation. The survey's result has shown that **69%** of participants declared the increase of fraudulent operations during the Lebanese crisis. In addition, the PCA results (**Table 3**) reveal that the variable called

“increase of fraud cases” has a significant weight in the selected first axes of the two questionnaires (weights are respectively 0.867 and 0.777). The previous results express a general overview of the impact of the Lebanese crisis on fraud propagation. However, to be more specific, the researchers intend to investigate if the economic, financial and COVID-19 crises provide the coexisting of the three fraud factors justifying the commitment of irregularities. For both the external and internal samples, the PCA results show the significant weights of each of Cressy’s fraud factors namely, pressure (0.780 & 0.771), opportunity (0.711 & 0.848) and rationalization (0.702 & 0.695). Hence, as argued in the theoretical part, the financial distress and economic meltdown in Lebanese companies are considered incentives to commit fraudulent operations. In addition, the lockdown imposed by the Covid-19 disease creates a good opportunity for fraud propagation without forgetting the employees’ justification of illegal acts due to the lack of integrity and ethical reasoning. All of above **verify the first Hypothesis** and confirm the supposition that the Lebanese crisis with its different aspects assure the coexisting of Cressy’s fraud factors and affect positively the propagation of fraudulent operations. Hence, due to the disturbing situation, embezzlers have a sequence of pretexts to justify frauds. The perturbation engenders by the crisis minimizes the likelihood of detecting different aspects of irregularities and provides convenient justification of illegal acts enhancing financial difficulties of the most vulnerable entities.

#### *5.2.2 Crisis situation as “stimulus” for business failure risk*

The uncertainty around the survival capacity of the entities constitutes the main subject of investigation during a crisis situation. To analyze the impact of the Lebanese crisis on the companies’ business continuity, the researchers have interrogate the financial auditors around the most important going concern factors that must be affected by the turbulent environment. The big majority of the respondents has proclaimed the massive deterioration of the entities’ business continuity indicators mainly with the appearance of the sales reduction (99.16%), the freezing of bank credits (99.16%) and the permanent layoff (86.19%). The confirmation of the previous results requires the examination of the PCA analysis. As expected, the three corporate failure indicators occupy considerable weights on the second PCA components as shown in **Table 3**. Consequently, respectively for the external and internal samples, the weights are 0.834 & 0.813 for Sales’ reduction, 0.819 & 0.642 for Bank withdrawals freezing and 0.522 & 0.657 for the Permanent Layoff. So, the obtained results **confirm the second Hypothesis** and simulate the previous worldwide researches which insisted on the considerable influence of the crisis on the companies’ survival capacity. The Lebanese financial distress, manifested by the drying up of foreign currencies and the depreciation of Lebanese pound (lira), has shown the first sign of the economy meltdown. Since the Lebanese economy is built on import, the restriction on opening credit lines in foreign currencies has amplified companies’ challenges due to the impossibility of ensuring suppliers’ payments. Consequently, the lack of crisis management’s process has

generated dangerous crash that highlights the necessity of evaluating the degree of respect of going concern assumption.

### *5.2.3 Crisis situation as “creator” of relation between fraud and going concern risk*

The economic meltdown, financial distress and COVID-19 lockdown amplify the challenges for Lebanese companies especially with the appearance of real signs of bankruptcy. In order, to avoid the business failure or even to reduce its effects, the management adopts fraudulent behaviors mainly the manipulation of financial statements. The previous statement has been confirmed by the survey’s participants. Hence, approximately **71.5 %** of the respondents declared the managers attempts to ameliorate the financial landscape in order to assure a good reputation and attract different financing resources. In addition, the Kendall’s Tau – b test is applied to verify the contribution of the misreporting in improving the financial situation that might affect the accuracy of the corporate failure prediction. The obtained result (**P-value equal to  $0.013 < 0.05$** ) reveals a strong correlation between the misreporting and the affecting of the firms’ bankruptcy prediction accuracy as shown below:

**Table 4. Correlation between the misreporting and the deterioration of bankruptcy prediction accuracy (Kendall Tau-B Test)**

		<b>Misreporting</b>	
<b>Financial Auditors</b>	<b>Misreporting</b>	<i>Coefficient</i>	1.000
		<i>Correlation</i>	-
		<i>Sig (2-Tailed)</i>	.239
		<i>N</i>	
	<b>Deterioration of Bankruptcy Prediction Accuracy</b>	<i>Coefficient</i>	<b>.144</b>
		<i>Correlation</i>	<b>.013</b>
		<i>Sig (2-Tailed)</i>	<b>.239</b>
		<i>N</i>	

The foregoing result **confirms the third Hypothesis** and shows the contribution of the crisis situation in creating a significant relationship between the fraud propagation especially the financial information fraudulence and the deterioration of the firms’ bankruptcy prediction accuracy able to affect the going concern assumption. The result simulates the finding of Abou Bakar & Ben Yahya (2021) by proving that the financial misreporting practices reduce the reliability of the financial ratios used to evaluate the survival capacity of the entities and invite the financial auditors to properly assess the going concern assumption.

### *5.2.4 Modified audit report as “response” for assessed fraud and going concern risk*

Considering the enhancement of financial auditors’ responsibilities towards entities’ third parties, the assessment of fraud and going concern risk occupied an important position during the Lebanese crisis. Regarding the pervasiveness of fraud, the

survey's participants have indicated that the professional skepticism required a specific assessment of fraud risk (77%) and considerable evaluation of the management override of controls (82%). In addition, the principle component analysis results show the importance of the previous variables as shown in **Table 3**. Furthermore, the logistic regression confirms that the application of specific audit procedures to detect irregularities explains well the enhancement of the financial auditors' responsibilities towards stakeholders and managers (**P-value equal to .000 & .036 < 0.05**) as shown in the following table:

**Table 5. Relation between the enhancement of financial auditors' responsibilities and the application of fraud and going concern assessment procedures (Logistic Regression)**

Financial Auditors	"B	S. E	Wald	df	Sig	Exp(B)"
External Auditors (FAC4)	1.414	.309	21.013	1	.000	4.114
Internal Auditors (FAC4)	1.057	.505	4.382	1	.036	2.878

Additionally, the same test has confirmed that the appearance of the business failure indicators constitutes also the main reason behind the strengthening of the auditors' responsibilities sense (**P-value equal to .047 & .012 < 0.05**) as shown in the following table:

**Table 6. Relation between the enhancement of financial auditors' responsibilities and the appearance of corporate failure indicators (Logistic Regression)**

Financial Auditors	"B	S. E	Wald	df	Sig	Exp(B)"
External Auditors (FAC 2)	.590	.297	3.960	1	.047	1.804
Internal Auditors (FAC 2)	1.902	.706	6.269	1	.012	.149

Previous conclusions guide the analysis to the examination of the financial auditors' response to the assessed fraud and going concern risk. According to ISA 700 (IAASB, 2016), financial auditors must certify the financial statements according to the evidences obtained during the mission. Due to the uncertainty and the appearance of new fraud categories threatening the going concern principle, the survey's participants have found that it is impossible to "obtain reasonable assurance that the financial statements are free from material misstatements resulting from fraud or going concern risk". Thus, approximately **94%** of the external auditors declared the necessity of modifying the audit report. This declaration is also confirmed by the PCA result with a considerable weight for the four types of modifications. Therefore, Lebanese financial auditors believe that according to the assessment of the risk level the hierarchical system of modified audit report must be adopted. Consequently, the PCA result rank the four types of going concern opinion according to the response

obtained from financial auditors. Hence, we note that the most important weight (**0.794**) is occupied by the formulation of an emphasis of matter paragraph called “Material Uncertainty related to going concern” that explains the risks affecting the continuity principle, followed in the second rank by the issuing of a qualified opinion for going concern issues (**0.782**). After that, the enhancement of the going concern risk impels financial auditors to formulate an adverse opinion (**0.765**) or to disclaim an opinion (**0.641**). Noted that the application of the logistic regression test has shown that the modification of the audit report by adopting the hierarchical system explains well the enhancement of the auditors’ responsibilities in time of crisis (p-value equal to  $.022 < 0.05$  as indicating in the following table:

**Table 7. Relation between the enhancement of financial auditors’ responsibilities and the modification of the audit report (Logistic Regression)**

Financial Auditors	<i>“B</i>	<i>S. E</i>	<i>Wald</i>	<i>df</i>	<i>Sig</i>	<i>Exp(B)”</i>
External Auditors (FAC 5)	.609	.266	5.523	1	<b>.022</b>	1.838

Concerning the relation between the propagation of financial statement fraud and the modification of audit report for going concern issues, the Kendall Tau-b Test verifies the significant relation between the two variables and allow the researchers to **confirm the fourth Hypothesis** by declaring that the issuing of going concern opinion is positively affected by the propagation of fraud cases. This result simulates the worldwide studies by considering that the audit report is the protector of the stakeholders’ and the companies’ interests (Mareque, *et al.*, 2017; Rickling, *et al.*, 2020; ...). The obtained result is summarized in the table below:

**Table 8. Correlation between the propagation of fraud and the issuing of going concern opinion (Kendall Tau – B Test)**

		<b>Propagation of fraud</b>	
	<b>Propagation of fraud</b>	<i>Coefficient</i>	1.000
		<i>Correlation</i>	-
		<i>Sig (2-Tailed)</i>	161
		<i>N</i>	
<b>External Auditors</b>	<b>Going Concern Opinion</b>	<i>Coefficient</i>	<b>.286</b>
		<i>Correlation</i>	<b>.000</b>
		<i>Sig (2-Tailed)</i>	<b>161</b>
		<i>N</i>	

### **5.3 Additional tests: A comparative study between external and internal samples**

It was specified from the beginning of our research that the study’s sample covers both external and internal auditors. Accordingly, for analysis and discussion goals, the researchers present a general comparative study between external and internal collected responses concerning fraud and going concern risk. First, for fraud

propagation, the analysis is extended to explore the difference between the groups by inspecting the possibility of existing significant relation between the type of audit firms (or companies) and the declaration of the increase of fraudulent operations. The Kendall's Tau-B correlation test has shown the existence of significant relation between the type of audit firms (International Big 4, International Non Big 4 and Lebanese) and the declaration of fraud propagation (P value equal to  $.000 < 0.05$ ) as shown below:

**Table 9. Correlation between the type of audit firms and the declaration of fraud propagation (Kendall Tau-B Test)**

		Type of Audit Firm	
	Type of Audit Firm	Coefficient	1.000
		Correlation	-
		Sig (2-Tailed)	161
		N	
External Auditors	Declaration of fraud propagation	Coefficient	<b>0.365</b>
		Correlation	<b>.000</b>
		Sig (2-Tailed)	<b>161</b>
		N	

The positive value indicates that with the increase of the audit firms' size (International), the possibility of detecting and revealing the fraudulent operations rises. Concerning, the internal auditor's sample, the previous test denies the presence of significant relation between the types of entities (Bank, Listed and unlisted companies) and the declaration of fraud propagation (P value equal to  $.827 > 0.05$ ). Regarding the going concern uncertainty, the ANOVA test follows the same logic of Kendall's Tau – b test and reveals that the type of audit firms affects the possibility of detecting going concern uncertainty indicators (P – value equal to  $.005 < 0.05$ ).

**Table 10. Correlation between the type of audit firms and the doubt about going concern assumption (ANOVA Test)**

ANOVA (External Auditors' Sample)					
	Sum of Squares	df	Mean Square	F	Sig.
<b>Between Groups</b>	4.397	2	2.198	5.486	<b>.005</b>
<b>Within Groups</b>	63.317	158	.401		
<b>Total</b>	67.714	160			

Concerning the internal auditors sample, the ANOVA test rejects the hypothesis of significant correlation between the type of entities and the detecting of going concern uncertainty indicators (P-value equal to  $.425 > 0.05$ ). Furthermore, regarding the most important theme manifested by the impact of the fraud propagation on the assessment of going concern principle, the SPSS results indicate a significant

relationship between the type of audit firm or entity and the declaration of the impact of fraud propagation on threatening the going concern principle as illustrated in the following table:

**Table 11. Correlation between the type of audit firms (or entities) and the declaration of significant relationship between fraud and going concern risk (Kendall Tau – B Test)**

			<b>Impact of fraud on going concern</b>
<b>External Auditors</b>	<b>Type of Audit Firm</b>	<i>Coefficient Correlation</i>	<b>.203</b>
		<i>Sig (2-Tailed)</i>	<b>.005</b>
		<i>N</i>	<b>161</b>
<b>Internal Auditors</b>	<b>Type of Entities</b>	<i>Coefficient Correlation</i>	<b>0.758</b>
		<i>Sig (2-Tailed)</i>	<b>.033</b>
		<i>N</i>	<b>78</b>

Hence, previous listed results simulate De Angelo (1981) conclusions' and confirm that the competence and the independence of international financial auditors are the basis to detect different risk threatening the quality of financial auditing mission. However, as argued by Groff *et al.* (2017), the effectiveness of the financial auditing mission, especially during a crisis situation, is associated with the modification of the audit engagement including the increase of audit fees.

Summing up, many studies have developed separately one of the two themes of fraud or going concern risk. For discussion purposes here, we state first that our results simulate Devi *et al.* (2021) and Mukhtaruddin *et al.* (2020) findings by verifying that the coexisting of fraud factors encourages the propagation of fraudulent practices mainly the financial statement fraud. Additionally, the verification of the relationship between the fraudulent financial information and the deterioration of the bankruptcy prediction accuracy goes in parallel with the research of Abu Bakar & Bin Yahya (2021). Along the same lines, cellica and Kurmia (2016) findings confirm that the deterioration of the bankruptcy prediction accuracy constitutes one of the main reasons behind the issuing of a going concern opinion. However, this study advanced current knowledge by examining the response of financial auditors to the relationship existing between fraud, bankruptcy prediction accuracy, and a going concern risk during the Lebanese crisis. Over decades, multiple studies have developed the impact of the crisis situation and financial distress on modifying the audit report through the issuing of a going concern opinion (Geiger *et al.*, 2014; Moalla, 2019; Xu *et al.*, 2011). This research has shown, drawing on fraud of the the value of investigating the relationship between the reliability of financial information and the bankruptcy prediction accuracy. The present research differs from previous listed studies by the verification of the significant relationship between the fraud propagation, the bankruptcy prediction accuracy and the going concern opinion through the confirmation of the negative impact of the fraudulent financial



statements on the reliability of bankruptcy prediction, which obliges financial auditors to issue going concern opinion through the adoption of a hierarchical system able to alert several parties of the risk threatening their interests.

## **6. Conclusion**

The research paper has highlighted the impact of the Lebanese economic, financial and health crises on financial auditing mission, especially during assessing and reporting fraud and going concern risk. The survey carried out among 239 external and internal auditors has emphasized the significant impact of the crisis on enhancing fraud propagation and business failure risk. Considering the Fraud Triangle and the Bankruptcy theories, the empirical results confirm that the economic meltdown, financial distress and Covid-19 lockdown accelerate the propagation of fraudulent operations and the appearance of corporate failure signs. Moreover, the statistical analysis verify the significant relationship between the two concepts of fraud and going concern by considering that the commitment of fraudulent operations, especially the financial statement fraud, provides a better landscape of the entities' financial situation and deceives the several parties about the proper application of the going concern principle. In front of issues, financial auditors plan and perform the audit to properly assess the fraud and going concern risk by applying specific audit procedures to obtain reasonable assurance about the trustworthiness of the published financial statements. During the crisis and due to the continuous uncertainty, the majority of the participants declared the impossibility to obtain sufficient evidence proving the absence of material misstatements. The enhancement of their responsibilities towards third parties leads them to issue a going concern opinion, by adopting the hierarchical system based on the level of the assessed risk and differing from the introduction of an explanatory paragraph called "Material uncertainty related to going concern", the expression of qualified or adverse opinion and the disclaimer of opinion.

It must be acknowledged that the study's results emphasize the fundamental role played by Lebanese financial auditors in protecting third parties' interests through the issuing of an independent opinion, highlighting the dangerous impact of fraudulent operations, mainly the misreporting, on the entities' ability to continue as a going concern. This study contributes to the worldwide literature through the suggesting of the possible relationship between fraud and going concern risk. During crisis, auditors face increasing scrutiny by regulators and audit report users. Hence, the findings can be useful for regulators and several parties by increasing public awareness around the contribution of fraud propagation in enhancing doubt about entities' viability. Additionally, our findings suggest that the Big 4 auditors in the Lebanese context are more likely to issue going concern opinion for a given level of risk owing to their "deeper pockets" and "higher reputation cost". However it is clear the Big 4 did not challenge ongoing fraud, rather stepped back to minimize

reputation damage. To finalize, we note that due to the conduction of the empirical study during the COVID-19 lockdown, the exploratory investigation is limited to a small but representative sample of Lebanese financial auditors. Nevertheless, for more robust results, future research can extend the sample size and investigate the level of use of one of the bankruptcy prediction models such as Altman (1968) and Ohlson (1980)... by the Lebanese financial auditors, while predicting the entities' viability, in order to improve their decision accuracy. Furthermore, a new research insight appears by investigating the relation between the additional audit efforts and the audit fees in the Lebanese context.

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