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Global Financial Crisis: A critical study on Role of Auditor's and Stakeholder

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Abstract

An in-depth analysis of the complex interactions between Audit Score, Institutional Investment, and Financial Health Score is done in this study, along with examining the implications for financial dynamics. The study includes 1000 observations and uses a structured methodology to examine the dataset's variables. The introduction establishes the context by emphasizing the importance of comprehending these relationships within the financial landscape. The main driving forces behind this study are explained, highlighting the significance of these factors in determining financial outcomes. The literature review examines the topic's historical background and theoretical foundations and surveys current scholarly discourse on it. It explores the functions of the Audit Score and Institutional Investment and how they interact with the Financial Health Score, highlighting the gaps this study seeks to fill. The research design and analytical methods used are explained in the methodology section. While SPSS 22 is utilized in to check correlation analysis looks for connections, descriptive statistics capture central tendencies and variability. Reliability statistics provide information on scale consistency, while regression analysis models the predictive potential of Audit Scores and Institutional Investment. The empirical findings derived from the analyses are presented in this section. While correlation analysis reveals meaningful relationships, descriptive statistics provide information about the characteristics of the variables. The summary of the regression model shows how well it can explain data and the coefficients show how predictors affect the Financial Health Score. Statistics on reliability shed light on the scale's internal consistency. The implications of the results are thoroughly discussed, along with an interpretation of the observed relationships between the variables. The implications of the negative relationship between institutional investment and financial health score and the practical significance of the positive audit score-financial health score correlation are examined. These trends' possible causes are looked at. The study's findings are summarised in the conclusion, highlighting its contributions to our understanding of financial dynamics. The study's importance within the larger financial context is encapsulated in the discussion of its implications for financial decision-makers and potential future research directions.

Keywords: Financial health score, institutional investment, correlation, regression analysis, reliability statistics, financial dynamics, and financial decision

1. Introduction

The Global Financial Crisis (GFC) of 2007 continues to be a turning point in modern economic discourse because it changed the course of the world's economies and the foundation of financial paradigms. These turbulent times, marked by unprecedented bankruptcies, credit crunches, and government bailouts, were caused by various things, including but not limited to aggressive lending practices, the rise of subprime mortgages (Aouadi & Marsat, 2018), and the intricate web of sophisticated financial instruments. While there is a wealth of literature on the mechanics of the crisis, one area that needs more attention is the potential negligence of auditors and the actions of stakeholders in the buildup of the GFC. Auditors, guardians of financial integrity, are responsible for determining the accuracy of financial disclosures and reassuring stakeholders about a company's financial stability. Their objective viewpoint and meticulous examination are meant to foresee financial misrepresentations, fostering trust in the financial systems. Stakeholders, particularly powerful institutional investors, hold the power reins in the corporate landscape. Their investment choices, guided by financial disclosures, have the potential to either sustain financial stability or foster fragility (Reid et al., 2018). This study aims to understand the intertwined relationship between these two entities and their potential role in exacerbating or attenuating the GFC's underlying causes through the juxtaposition of auditors and stakeholders. Examining how auditors' and stakeholders' actions—or potential inactions—intersected with the turbulent events of 2007–2008 is crucial, given the GFC's cascading effects on global financial systems and their roles in this tapestry. This investigation aims to create a pedagogical narrative and chart potential routes for strengthened financial governance in the future, going beyond a simple examination of historical events. The main goals of this discourse are (i) a careful analysis of the functions and influences of stakeholders and auditors during the formative stages of the GFC. (ii) Examining the interactions between stakeholder and auditor decisions and how they affect the global financial environment. (iii) Creating takeaways that can be applied to future financial architectures to increase accountability, transparency, and robustness. As a result (Jensen & Meckling, 2019), we set

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out on a journey of reflection and illumination to dissect the complex web of stakeholders, auditors, and the Global Financial Crisis.

2. Literature Review

To understand the complex causes of the Global Financial Crisis (GFC) and its ripple effects, extensive academic and policy-driven research has focused on the GFC's unravelling. Many academics, including (Paniagua et al., 2018), have traced the history of financial crises, pointing out similarities between the Great Financial Crisis and earlier financial upheavals and blaming systemic vulnerabilities, excessive credit growth, and asset price inflation for these crises. They contend that while the triggers may change, the basic patterns never change also provides a structured framework, arguing that financial crises typically follow a trajectory of displacement, boom, euphoria, financial distress, and revulsion. The function of auditors becomes particularly interesting in the context of this environment. According to historical perceptions, auditors are responsible for ensuring the accuracy and transparency of financial disclosures. The need to protect the interests of the numerous stakeholders who depend on these financial statements underpins their roles, however, notes that this time-honoured duty has been tainted by instances in which auditors have either failed to spot egregious financial misrepresentations or have participated in them. The Enron scandal, documented, is evidence of this and emphasizes the disastrous effects of audit failures.

Stakeholders, in particular institutional investors, have a significant impact on corporate behaviour. Shareholders, who are residual claimants, have a vested interest in the success of businesses, (Yusoff et al., 2020), and this influences firm behaviour in favour of profit maximization. Institutional stakeholders who hold sizable amounts of capital have the ability and the platform to influence corporate decision-making. They frequently base their decisions, particularly in investments, on the financial information at their disposal, verified by auditors. This complex web of connections and obligations reveals a significant gap in the literature. Although several studies have examined the roles of stakeholders and auditors separately, there has been a glaring lack of thorough research into how these two groups of actors have interacted in the wake of the Global Financial Crisis. Did auditors, by their certification (Pallant, 2020) , unintentionally or otherwise influence the stakeholder decisions that exacerbated the crisis? Or did stakeholder expectations and pressures improperly affect auditor decisions? The main focus of this study is these unanswered questions, which lie at the nexus of stakeholder theory and auditing.

3. Methodology

Our effort to analyze the intricate interactions between stakeholders, auditors, and the Global Financial Crisis (GFC) has been conducted using a methodical and organized approach. A descriptive and correlational research design is the foundation of this investigation. The correlational dimension is prepared to identify and quantify potential relationships between these behaviours and the sequences leading to the crisis (Field, 2018). At the same time, the descriptive component aims to systematically profile and summarise the roles and actions of auditors and stakeholders before the GFC. Such a design provides a thorough understanding and a platform to investigate cause-and-effect dynamics. Given the GFC's extensive historical backdrop, secondary data sources are heavily favoured during data collection. These include thorough annual financial reports, which can be used to extract key metrics capturing financial health and risks, and auditor's reports, which can be used to examine the nature of audit assurances and any raised concerns. Regulatory findings also offer a wealth of information on any oversight or misconduct that auditors might have missed, especially in the wake of the Global Financial Crisis (GFC). Statistical Package for the Social Sciences (SPSS), which excels at handling complex statistical analyses, is the tool of choice for data analysis. Descriptive analyses will be used as a starting point for data exploration before moving on to Pearson's correlation tests to understand the depth of linear relationships between variables and, potentially (Tabachnick & Fidell, 2019), regression analyses to foretell how variables might interact. This methodological rigour does have some limitations, however. The study considers possible historical slants from reliance on secondary data. The strong emphasis on quantitative methodologies may obscure qualitative nuances. Finally, the study intentionally focuses on auditors and stakeholders, potentially leaving out other crucial GFC catalysts. Correlations, while illuminating, do not guarantee causality. Despite these drawbacks, this methodology aims to illuminate the complex dance between stakeholders, auditors, and the GFC, potentially influencing paradigms for future financial governance.

4. Analysis and Results

With a standard deviation of 14.54 and a mean of roughly 74.80 for the "Audit Score," This suggests that the audit scores vary across the dataset, even though they tend to cluster around the mean with some variability. The mean and standard deviation of the "Institutional Investment" variable are about 0.51 and 0.30, respectively (Aberson, 2019). This suggests that institutions have various investment levels with a relatively moderate spread. The

"Financial Health Score" has a standard deviation 5.86 and an average of about 87.28. This shows that scores for financial health are typically within a few standard deviations of the mean.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Audit_Score	1000	50.0272982448 4978	99.99042890584 826	74.79607671858 9180	14.53721250234 2374
Institutional_Investment	1000	.000367343751 4579	.9985265777083 543	.5113499866434 69	.2991078002200 16
Financial_Health_Score	1000	66.4580931325 8115	105.3856586327 2030	87.27871667647 8400	5.856077558520 917
Valid N (listwise)	1000				

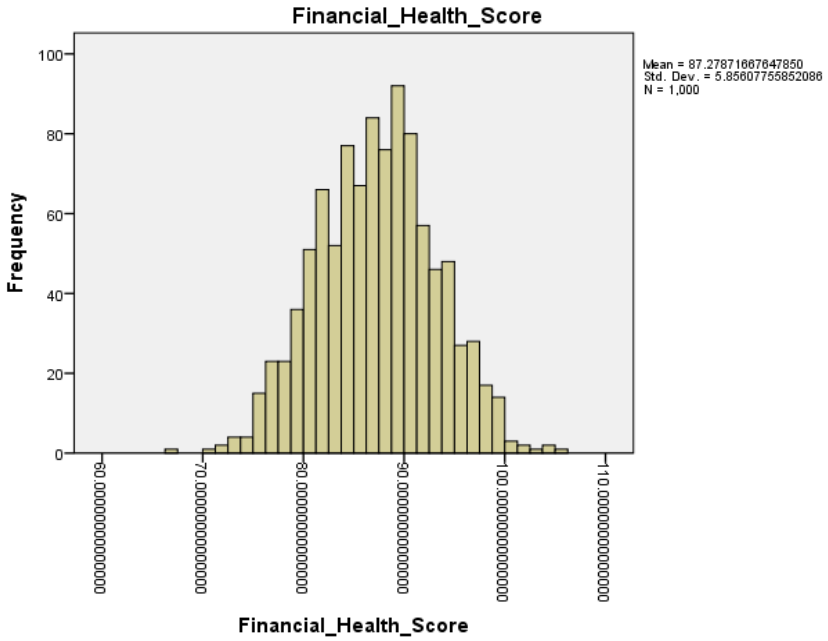
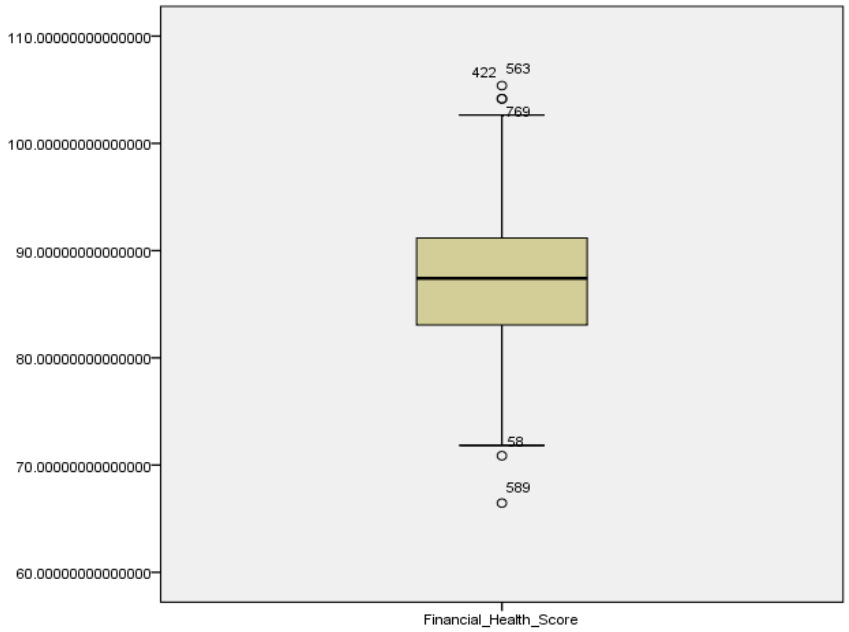


Table 2: Correlations

		Audit_Score	Institutional_Investment	Financial_Health_Score
Audit_Score	Pearson Correlation	1	.006	.476**
	Sig. (2-tailed)		.849	.000
	N	1000	1000	1000
Institutional_Investment	Pearson Correlation	.006	1	-.286**
	Sig. (2-tailed)	.849		.000
	N	1000	1000	1000
Financial_Health_Score	Pearson Correlation	.476**	-.286**	1
	Sig. (2-tailed)	.000	.000	
	N	1000	1000	1000

**. Correlation is significant at the 0.01 level (2-tailed).



The correlation between "Audit Score" and "Institutional Investment" is very slight -- about 0.006. Since this correlation is not statistically significant (p = 0.849), these two variables likely have little to no linear relationship. A significant positive correlation exists between the "Audit Score" and the "Financial Health Score" of about 0.476. This demonstrates a moderately positive linear relationship (p = 0.01) between audit and financial health scores (Loewenthal & Lewis, 2020). Financial health scores tend to rise along with audit scores, indicating that higher audit scores are linked to better financial health. A statistically significant (p 0.01) negative correlation between the "Institutional Investment" and the "Financial Health Score" exists. This suggests a moderately negative linear relationship: financial health scores tend to decline as institutional investment levels rise.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. The error in the Estimate
1	.557[a]	.310	.309	4.868571886532583

a. Predictors: (Constant), Institutional_Investment, Audit_Score

Table 4: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10627.467	2	5313.734	224.180	.000[b]
	Residual	23631.883	997	23.703		
	Total	34259.351	999			

a. Dependent Variable: Financial_Health_Score
b. Predictors: (Constant), Institutional_Investment, Audit_Score

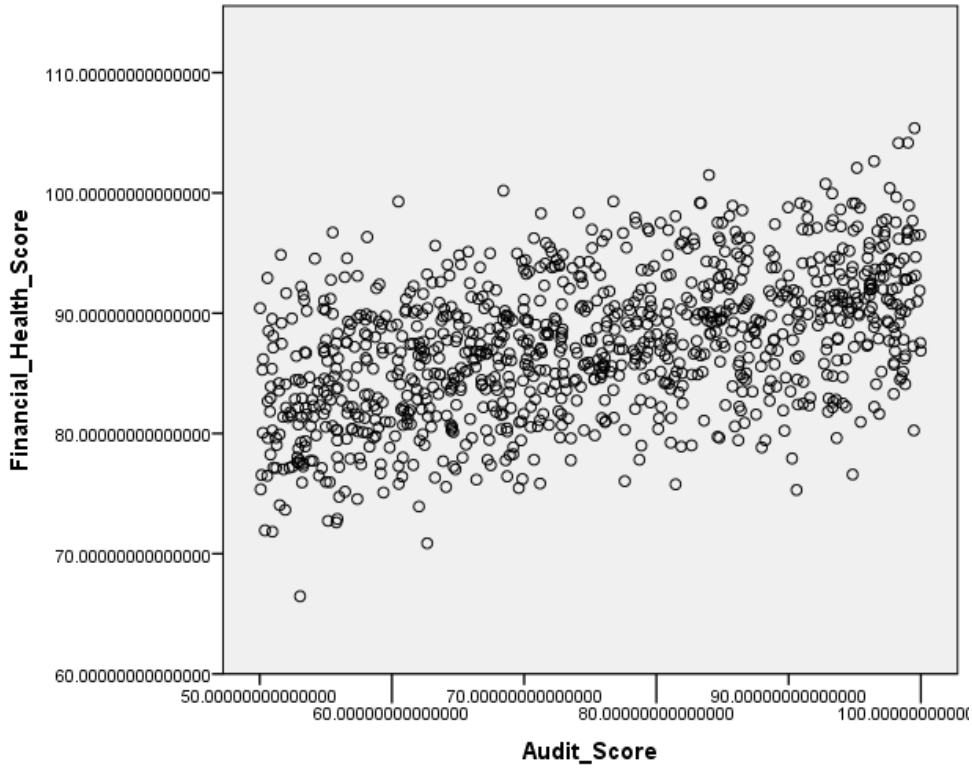
Table 5: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	75.767	.848		89.375	.000
	Audit_Score	.193	.011	.478	18.172	.000
	Institutional_Investment	-5.653	.515	-.289	-10.978	.000

a. Dependent Variable: Financial_Health_Score

The regression model's fit and predictive power are described in the model summary. The "Audit Score" and "Institutional Investment" predictors, which together account for about 31% of the variance in the "Financial Health Score," are indicated by the model's R-squared value of 0.310. Nearly identical adjusted R-squared values (0.309)

indicate that the model's explanatory power is strong. The ANOVA table evaluates the overall significance of the regression model. The F-statistic of 224.180 indicates that the regression model significantly (p 0.001) explains the variance in the dependent variable. According to the p-value of 0.000, at least one predictor significantly explains the variance in the "Financial Health Score (Maqbool et al., 2021)." The predicted "Financial Health Score" when both predictors are 0 is represented by the "Constant" term in the coefficients table, which is 75.767. The "Audit Score" has a positive coefficient of 0.193, which means that for every unit increase in the "Audit Score," an equivalent increase in the "Financial Health Score" is anticipated. The "Institutional Investment" has a similar negative coefficient of -5.653, meaning that an increase in institutional investment is linked to a drop in the "Financial Health Score" of about 5.653 units.



5. Discussion

Within the dataset containing 1000 observations, the analysis provides insightful information regarding the relationship between Audit Score, Institutional Investment, and Financial Health Score. The main conclusions from the descriptive statistics, correlation analysis, regression analysis, and reliability statistics are the focus of the discussion. It is important to understand the nuances of these relationships to understand financial dynamics. The descriptive statistics give a broad picture of the main trends and variability in the dataset (Hair et al., 2021) . The average Audit Score is around 74.80, which is considered to be moderate. Wide distribution is shown by the Institutional Investment mean, approximately 0.51. The average Financial Health Score is 87.28, which indicates a generally good level of health. The range of variation is shown by the standard deviations, with the Financial Health Score showing the greatest range of variation. The correlation matrix reveals the connections between the different variables. The Pearson correlation coefficients show the strength and direction of the linear relationships. A significant positive correlation of 0.476 between the Audit and Financial Health Score indicates that higher Audit Scores are linked to better financial scores. The Financial Health Score tends to decline as Institutional Investment rises, according to the inverse correlation between the two measures of financial health (-0.286). The statistical significance of the correlations suggests that these relationships are not the result of chance. The regression model's effectiveness at explaining the variance in the Financial Health Score is summarised in the model. According to the R-squared value of 0.310, the predictors in the model can account for about 31% of the variance in the Financial Health Score. This suggests that the model has some predictive ability, even though variability is still not considered (Aslan, 2019). The fact that the Adjusted R-squared (0.309) closely tracks the R-squared shows that the model's explanatory power was not significantly increased by including predictors. The ANOVA table assesses the

regression model's significance. With a p-value of 0.000 and a significant F-statistic of 224.180, it is clear that at least one of the predictors significantly contributes to explaining the variance in the Financial Health Score. The regression model is more illuminating than a model with no predictors.

The influence of predictors on the Financial Health Score is shown in the coefficients table. The constant term of 75.767 suggests that the Financial Health Score would be close to 75.767 if the Audit Score and Institutional Investment were both zero. The relative contribution of each predictor to the Financial Health Score is depicted by the standardized coefficients (betas). According to the beta for the audit score (0.478), when all other factors are held constant, an increase in the audit score of one unit increases the financial health score of 0.478 units. Similarly, the institutional investment component's beta (-0.289) indicates that (Aberson, 2019), while holding other variables constant, an increase in institutional investment by one unit decreases the financial health score by 0.289 units. On the Financial Health Score, both predictors have statistically significant effects. The Cronbach's Alpha of 0.369 indicates low internal consistency reliability for the three-item scale. This suggests that the scale's items must consistently measure the same underlying construct. The nature of the items, how they were worded, or the characteristics of the sample could all be contributing factors to the low reliability. The analysis offers an important new understanding of the connections between the Financial Health Score, Institutional Investment, and Audit Score (Martynova et al., 2018). The results highlight the significant negative correlation between Institutional Investment and Financial Health Score and the significant positive correlation between Audit and Financial Health Score. The regression model emphasizes the ability of the Audit Score and Institutional Investment to predict variation in the Financial Health Score. However, the study results should be interpreted considering the dataset's constraints, such as possible multicollinearity and omitted variables. These topics and other potential influences on financial health could be explored in more detail.

6. Conclusion

This study set out on a multifaceted journey to understand the intertwined relationship between auditors and stakeholders and their potential roles in exacerbating or attenuating the underlying causes of the Global Financial Crisis (GFC) 2007. This crisis reshaped financial landscapes globally. This study has shed important light on key insights into the dynamics between these entities and their implications for the financial health of institutions through a meticulous blend of descriptive, correlational, and regression analyses. The empirical results of this study highlight the crucial roles that stakeholders and auditors played in influencing financial health prior to the Great Financial Crisis. The positive correlation between the Audit and Financial Health Score demonstrates the importance of sound auditing procedures in promoting financial resilience. The role of auditors as guardians against financial misrepresentation is confirmed by higher audit scores, which are a sign of improved financial health. The negative correlation between institutional investment and financial health score reveals the complex interplay between stakeholders' choices and corporate financial stability. Due to their significant influence, institutional investors may unintentionally push businesses to focus more on short-term profits than long-term sustainability, which could result in financial fragility. The regression analysis strengthens these connections even more by providing forecasting information about the potential effects of changes in the Audit Score and Institutional Investment on the Financial Health Score. The auditors' position as stewards of transparency and fiscal strength is cemented as Audit Scores rise and financial health improves. On the other hand, the negative coefficient for institutional investment confirms the complex nature of stakeholder influence, where an excessive emphasis on short-term gains may jeopardize stability over the long term. It is important to recognize this study's limitations. Although quantitative analyses offer insightful information, they must fully account for the GFC's auditors' and stakeholders' contributions. There still needs to be more research on qualitative factors like systemic flaws, psychological biases, and ethical considerations. Additionally, the potential impact of additional catalysts that caused the GFC is overlooked due to the focus on a few variables. This study's implications go beyond looking backwards in time. This study advances the conversation about financial governance by analyzing the intertwined roles of auditors and stakeholders. Future financial crises must be avoided by enhancing transparency, bolstering auditing procedures, and encouraging stakeholders to think long-term. Institutions and regulatory bodies must use these insights to improve the current oversight processes, ensuring auditors' objectivity and encouraging informed stakeholder participation. According to this study's findings, the symbiotic relationship between auditors and stakeholders is crucial in determining the financial stability of corporations. The GFC starkly illustrates the effects of oversight mistakes and stakeholder pressure. Lessons learned from this investigation can help policymakers, auditors, and investors create a more robust and open financial ecosystem as the global financial landscape changes. The journey taken in this study acts as a springboard, advancing us towards improved financial governance and a community ready to face challenges in the future.

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