International Journal of Multidisciplinary Education and Research
ISSN: 2455-4588
Impact Factor: RJIF 5.12
www.educationjournal.in
Volume 3; Issue 6; November 2018; Page No. 06-12

To strengthen understanding of fraudulent activities in firms

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Abstract
Fraud is a serious issue that could bring down a company, no matter its size. Because fraud is such a monumental problem – so much so that it could even lead to the critical failure of an otherwise successful business – it's important to combat it vigorously. Fraud detection and prevention should be an ongoing initiative. In addition, while we cannot prevent every instance of fraud from happening to business, we can take precautions to minimize fraudulent activity. This paper provides insights that can significantly reduce fraudulent activities from occurring or cut losses if a fraud already occurred. Making the company policy known to employees is one of the best ways to deter fraudulent behaviour. Following through with the policy and enforcing the noted steps and consequences when someone is caught is crucial to preventing fraud. The cost of trying to prevent fraud is less expensive to a business than the cost of the fraud that gets committed.

Keywords: fraud, fraud detection, prevention, company policy

Introduction
With an upsurge in financial accounting fraud in the current economic scenario experienced, financial accounting fraud detection have received considerable attention from the investors, academic researchers, media, the financial community and regulators. Due to some high profile financial frauds discovered and reported at large companies like Enron, Lucent, WorldCom and Satyam over the last decade, the requirement of detecting, defining and reporting financial accounting fraud has increased. Accounting fraud is intentional manipulation of financial statements to create a facade of a company's financial health. It involves an employee, account or the organization itself and is misleading to investors and shareholders. A company can falsify its financial statements by overstating its revenue or assets, not recording expenses and under-recording liabilities. Fraud is a difficult matter to handle. It can be classified in three ways: fraud by deception or misrepresentation, fraud by the omission of information, and fraud by abuse of position.

The responsibility of preventing, detecting and investigating frauds in financial statements lies in the hands of the management of an enterprise, but also in the hands of other control institutions and mechanisms. The system of internal control, internal auditing and audit committee are the key elements for preventing frauds that are created through property misuse as well as those that use financial statements as instruments of fraud. External auditing and forensic accounting perform retrospective control of financial data with the aim of detecting omissions and frauds and the aim of securing the reliability and credibility of financial statements. The main role of forensic accountants is to assist the courts, solicitors and clients understand the complex financial and accounting issues and presenting that information in a manner that all users can understand. An important addition to that is that the opinions or results are supported by evidence that will hold up under cross examination or scrutiny.

This article review the literature on fraud and forensic accounting. For the purpose of this review, forensic accounting involves the process of understanding, identifying, detecting and communicating fraud patterns and schemes to stakeholders to aid any investigation process or activity. Accounting standards allow managers to exercise discretion in financial reporting. However, there are concerns that managerial discretion can be abused and could be used to engage in, and to hide fraudulent practices; hence, the need for forensic accounting in fraud detection practice.

What is accounting fraud?
Accounting fraud remains one of the most critical and prevalent issues faced by many organisations in which arise from intentional manipulation of financial statements with the disclosure of financial misdeeds by trusted executives of corporations or governments. Such misdeeds typically involve complex methods for misusing or misdirecting funds, overstating revenues, understating expenses, overstating the value of corporate assets or underreporting the existence of liabilities. It involves an employee, account or corporation itself and is misleading to investor and shareholders.

Fraud, variously defined, is an area that has been discussed and examined from many different perspectives and in relation to many different practices, in varying contexts. It is surprising, however, that many of the terms, concepts, understandings and behaviors surrounding fraud have not been discussed or examined in the accounting and auditing literature. That literature has used a somewhat limited range of perspectives, most commonly based on studies either of causes of fraud based on individual behavior or on capital market effects of illegal acts. The accounting literature

typically focuses on the individual and it assumes that fraud is an objective phenomenon; that we all agree what is fraud, that there is limited moral or ethical ambiguity about the nature and effects of fraud, and that such agreements are somewhat invariant across time and space.

Fraud involves the false representation of facts, whether by intentionally withholding important information or providing false statements to another party for the specific purpose of gaining something that may not have been provided without the deception. Often, the perpetrator of fraud is aware of information that the intended victim is not, allowing the perpetrator to deceive the victim. At heart, the individual or company committing fraud is taking advantage of information asymmetry; specifically, that the resource cost of reviewing and verifying that information can be significant enough as to create a disincentive to fully invest in fraud prevention.

Nature of fraud

Accounting fraud is the phrase used to describe a situation when an employee of a business entity steals, misappropriates or embezzle money or other resources. Anybody in the position of stealing ranging from unit managers to accounting clerks or chief financial officer can perpetrate this kind of fraud. Factors like enriching oneself, covering for errors, and covering for a loved one can be the motive behind the commission of accounting fraud. The interesting stuff about accounting fraud is that small discovery usually lead to massive exposure of fraud.

It is of importance to understand the nature as that will be of great assistance to organizations in checkmating and combating it. Generally, fraud is categorized on the basis of its perpetrators. This way, it could be internal, external or mixed. Internal perpetrators of fraud are staff under the employment of the organization either as directors, management staff, officers, supervisors or other employees while the external ones are those outside the organization. Mixed perpetrators are those involving members of staff of an organization colluding with outsiders to carry out their fraudulent activities. Another way of classifying fraud is on the basis of methods employed in perpetrating it. Given the sophistication, inventiveness and ingenuity of fraudsters in devising ways to carry out their trade, it will be practically impossible to list and discuss all of them. However, the most important and common ones are highlighted hereunder.

What is the risk or likelihood of a fraud occurring in your organization? A more difficult question to answer than one might think. However, many studies have been performed - asking that very question. A 1997 study stated that 63% of companies had a least one fraud in the last two years; and a 1999 study has 57% of respondents reporting a fraud in their company in the last year. So the research indicates that the risk of experiencing a fraud is high. The reality is that both management and audit have roles to play in the prevention and detection of fraud. The best scenario is one where management, employees, and internal and external auditors work together to combat fraud. Furthermore, internal controls alone are not sufficient, corporate culture, the attitudes of senior management and all employees, must be such that the company is fraud resistant. Unfortunately, many auditors feel that corporate culture is beyond their sphere of influence. However, audit can take steps to ensure that senior management is aware of the risk and materiality of fraud and that all instances of fraud are made known to all employees. Also audit cal also encourage management to develop Fraud Awareness Training and a Fraud Policy to help combat fraud. Finally, audit can review and comment on organizational goals and objectives to reduce the existence of unrealistic performance measures. So, there are a number of things auditors can do to help create a fraud resistant corporate culture.

Damage caused by fraud

Fraud can have a substantial impact on a business, no matter what size it is. The two most basic types of fraud are misappropriation of assets by employees and fraudulent financial reporting by management, whereby misleading or inaccurate financial information is disseminated to investors, stakeholders and the public. The first type of fraud often happens without management knowledge, and the second type is often unknown to employees. Both can devastate a company. Additionally, the impact of fraud can be devastating and the results can have deep consequences for the marketplace, organisation, employees, clients and suppliers. As recent corporate incidents have shown, financial losses arising from fraudulent activity may lead to redundancies, factory closures, the loss of business opportunities or even business failure. The misappropriated funds might otherwise have been used to re-invest in the business, to build new facilities, create employment or develop better products and services.

The emotional effects fraud can have on a victim are perhaps the most troubling. In comparison to victims of violent crimes, they're susceptible to many stress-related complications and psychological problems. When fraud evolves into an even more damaging crime such as identity theft, many victims find it difficult to recover from the financial loss. If they were baited into a scam, they may feel as if they not only lost their money, but their sense of security, self-esteem and dignity as well. For some, this may be an ordeal that takes years to resolve. The effect of fraud on a company's culture and morale can be shattering. Any association with a company that has perpetrated or suffered fraud can be troubling and embarrassing for the people who work there. This may be especially true in a small-business setting where workers feel more connected with one another. Even if employees leave the company, they may carry an association with a fraudulent company into their next place of employment, even if they were not involved with the fraud at all.

It is very difficult to measure the damage caused by fraud to the company, the impact on corporate image and finance depends on the results of the disclosure of fraud, but in fact many fraudulent acts fail to report. Financial loss is an obvious effect of both types of fraud. When someone misappropriates company assets, the loss is fairly easy to quantify. For example, if a cashier takes $60 from the cash register, the company loses $60. The costs of fraudulent financial reporting are harder to determine. If a small-business owner perpetrates financial statement fraud, an explicit dollar figure might not be obvious. However, fines assessed for misleading investors, civil suits to recoup investor and creditor

losses and the unwillingness of companies to extend credit to the business in the future all add up to a severe financial loss for the company.

Furthermore, once a fraud has been uncovered, the company faces an ongoing problem of public trust in the organization. While a small business scandalized by fraud might never be the victim or perpetrator of another fraud, its public image might be irreparably tainted. As a consequence, the company may have to pay a higher price for credit, may be refused membership in trade associations or might not be considered for a strategic alliance. In addition, if losses go unchecked, they can rise quickly. Large losses can also diminish investor confidence, which may cause negative brand publicity. Fraud losses even increase the odds of regulatory scrutiny which can often lead to fines, sanctions, and penalties. In this point, also important to note that small businesses that are subject to audit and have experienced fraud, especially if the fraud was perpetrated by company management, are likely to be assessed as a high audit risk. That means auditors will more closely scrutinize company books before signing off on a company's financial statements. When an auditor is required to perform more procedures, the cost of the audit will increase. This can often be mitigated by demonstrating that the offending managers or employees have left the company and the company has instituted strict procedures to thwart future attempts at fraud.

The actual cost of fraud is difficult, if not impossible, to quantitatively measure for many reasons. First, empirical studies show that only a small portion of all frauds, including financial statement fraud, is discovered. Second, even if the fraud is discovered, not all cases are reported because companies attempt to preserve their images by firing the fraudsters and pretending that the incident never happened. Third, fraud surveys in reporting the extent and magnitude of fraud are not always accurate, and they are subject to the limitation of any typical survey study in the sense that the respondents often report their perception rather than the reality. Finally, companies typically do not pursue civil or criminal actions; by firing the fraudsters, many companies believe that they have prevented further occurrences of fraud.

Types of fraud

Fraud takes place when a person deliberately practices deception in order to gain something unlawfully or unfairly. In most states, the act of fraud can be classified as either a civil or a criminal wrong. While fraud is most commonly committed to obtain benefits of value, it sometimes occurs solely for the purpose of deceiving another person or entity. For instance, if a person makes false statements, it may be considered fraud, depending on the circumstances. To explore this concept, consider the following discussion of fraud types, as publicly announced by ACFE.

Corruption

The term “corruption” refers to the misuse of resources or power for private gain. In general, corruption is a form of dishonesty or criminal activity undertaken by a person or organization entrusted with a position of authority, often to acquire illicit benefit. Corruption may include many activities including bribery and embezzlement. In addition, corruption is an improbity or decay in the decision-making process in which a decision-maker consents to deviate or demands deviation from the criterion which should rule his or her decision-making, in exchange for a reward or for the promise or expectation of a reward, while these motives influencing his or her decision-making cannot be part of the justification of the decision.

There are two additional necessary conditions for corruption, or rather conditions that must be fulfilled for observed bias (“non-compliance with the arm’s-length principle”) to be specified as corruption. The first condition is that the bias must be intentional – accidental violation of the arm’s-length principle because of, for example, imperfect information, does not represent corruption. Second, there must be some advantage for the individual who commits a violation of the arm’s-length principle; otherwise, there is no corruption. Violating impartiality may sometimes represent racism, but it is not corruption. Corruption is a phenomenon with many faces. It is characterised by a range of economic, political, administrative, social and cultural factors, both domestic and international in nature. Corruption is not an innate form of behaviour, but rather a symptom of wider dynamics. It results from interactions, opportunities, strengths and weaknesses in socio-political systems. It opens up and closes down spaces for individuals, groups, organisations and institutions that populate civil society, the state, the public sector and the private sector. It is, above all, the result of dynamic relationships between multiple actors

From the enforcement point of view, corruption is a contract. It is an informal contract because it is illegal – no court in the world will uphold it if there is a problem with its enforcement. On the contrary, a properly operating court would process corruption as a criminal offense. This very specific feature of corruption as an illegal contract generates its substantial transaction costs, the most important of which are: finding the counterpart, formulating the contract (particularly taking into account all foreseeable and unforeseeable contingencies), monitoring the contract, and enforcing the contract. This is not to say that standard legal contracts are free of transaction costs. This is to say that due to the illegal nature of the corruption contract, its transactions costs are multiplied. The transaction cost feature of corruption is of great relevance and must be taken into account when the consequences of corruption are analyzed.

Asset misappropriation

Asset misappropriation involves stealing an asset of a company for personal use at the company’s expense or misuse of a company’s resources. Asset misappropriation is often accompanied by false or misleading records or documents to conceal the theft. Asset misappropriation schemes include those frauds in which a perpetrator employs trickery or deceit to steal or misuse an organization’s resources. In these cases, specific assets of the organization are taken to directly benefit the individuals committing the fraud. Individuals committing asset misappropriation-type crimes may be: employees of an organization, customers or vendors of an organization, or could be individuals unrelated to the victim organization. This remains the most common type of fraud although it is not as expensive as the less frequent but much more costly financial

statement fraud. It occurs in every type of organization from non-profit to governmental to for profit and from small to large. It can occur over and over again if steps are taken to prevent it from happening and the controls put in place are not serious.

Misappropriation of assets may occur under different circumstances: (1) before they are recorded in the books and records of an organization (i.e. skimming), (2) while assets are currently held by the organization (e.g. larceny or misuse of equipment, inventory, supplies, cash, etc.), or (3) during the process of purchasing goods or services (e.g., billing, expense reimbursement, payroll schemes). In this final scenario, the organization pays for something it shouldn't pay for or pays too much for purchased goods or services. Research has shown that, of these three types of asset misappropriation, fraud involving purchases is, by far, the most common and expensive for organizations.

Financial statement fraud

Financial statement fraud is the deliberate misrepresentation of the financial condition of an enterprise accomplished through the intentional misstatement or omission of amounts or disclosures in the financial statements to deceive financial statement users. Typically, financial statement fraud is propagated by management to achieve desired objectives. For instance, management of a company that is obtaining bank approval for a loan may misstate their financial statements to create an impression that they can very well pay for such loan. Management of a firm may misstate financial statements to make their stock attractive to investors and consequently, increase their stock price. Further, management may misstate financial statements to justify their bonuses and increased salaries. This usually happens when management compensation is tied to company performance.

Financial statement fraud is committed with the intent to deceive, mislead, or injure investors and creditors. Financial statement frauds are deliberate criminal and/or unethical actions by publicly traded companies to falsify financial information for the purpose of deceiving parties (e.g., investors, creditors, regulators) outside the company. Fraudulent financial statements can be used to unjustifiably sell stock, obtain loans or trades credit, and/or improve managerial compensation and bonuses. Financial statement fraud has become known through daily press reports challenging the corporate responsibility and integrity of major companies such as Lucent, Xerox, Rite Aid, Waste Management, Micro Strategy, Knowledge Ware, Raytheon, Enron, and Sunbeam, which were recently alleged by the Securities and Exchange Commission (SEC) for committing fraud. Top management teams, including chief executive officers (CEOs) and chief financial officers (CFOs) of these companies, are being convicted of cooking the books and often sentenced to jail terms. Occurrences of financial statement fraud by aforementioned high profile companies, just naming a few, have raised concerns about the integrity and reliability of the financial reporting process and have challenged the role of corporate governance in preventing and detecting financial statement fraud.

What Drives People to Commit Fraud

To better understand why people commit fraud, consider the fraud triangle. The Fraud triangle is a framework designed to explain the reasoning behind a worker's decision to commit workplace fraud. The three stages, categorised by the effect on the individual, can be summarised as pressure, opportunity and rationalisation. Broken down, they are:

Pressure

The pressure on the individual – is the motivation behind the crime and can be either personal financial pressure, such as debt problems, or workplace debt problems, such as a shortfall in revenue. The pressure is seen by the individual as unsolvable by orthodox, legal, sanctioned routes and unshareable with others who may be able to offer assistance. A common example of a perceived unshareable financial problem is gambling debt. Maintenance of a lifestyle is another common example. Managers will commit fraud as a result of perceived stress. The pressure will be the reason for the manager when doing fraud. Pressure can come from both internal and external. SAS 99 states that the pressure can be derived from the company's financial stability that is threatened, external pressure as example from lenders, the influence of the company's performance against the wealth management, and difficulties of achieving financial targets.

Pressure can take many forms, and the pressures that motivate employee fraud differ from those that motivate management fraud. Pressures on employees most often include financial, emotional and lifestyle. Here, some examples of pressure. Financial pressures may be high personal debt/expenses, heavy financial losses, tax avoidance and "inadequate" salary/income. Emotional pressures include job dissatisfaction, coercion by management, fear of losing one's job and the need for power or control. Lifestyle pressures include addictions such as gambling, drugs, or alcohol; and family/peer pressure. It is important to note that lifestyle pressures do not necessarily exist in the person committing the fraud but may be found in a spouse, romantic partner, or other family member. Some red flags that may be found in employees experiencing pressure are living beyond one's means, recent acquisition of high dollar assets such as a sports car or boat, refusal to share job duties, reluctance to take time off, expression of bitterness over a missed promotion or pay raise, radical changes in behavior and/or appearance, sudden decline in performance, and sudden attendance issues. Organizational pressures on management, which often inspire financial statement fraud, include management characteristics, industry conditions and financial pressure.

Opportunity

The opportunity to commit fraud – is the means by which the individual will defraud the organisation. In this stage the worker sees a clear course of action by which they can abuse their position to solve the perceived unshareable financial problem in a way that – again, perceived by them – is unlikely to be discovered. In many cases the ability to solve the problem in secret is key to the perception of a viable opportunity. In addition, opportunity is the condition or

situation that allows an individual to commit fraud, conceal fraud, and convert the theft or misrepresentation to personal gain. This side of the fraud triangle is the easiest for organizations to address through the design, implementation and enforcement of internal controls. Some examples of controls include segregation of duties, authorization procedures, proper supervision, safeguarding of assets, clear lines of authority, adequate documentation and independent checks on performance.

Opportunities to commit fraud are more commonly present in organizations that have poor internal controls because it makes it easier for the employee to commit fraud and provide a low-risk environment for getting caught. However, companies with ample internal controls are still susceptible to fraud if controls can be overridden by management. If the internal control system is designed in a way that the risk of getting caught is too high, the employee will likely not exploit the perceived opportunity for his or her personal gain. Without opportunity, fraud generally cannot occur. The opportunity for fraud is the most straightforward causal factor for organizations to address because it is rooted in the organization itself. Unlike motivation or rationalization, opportunity does not depend on the potential fraudster's personal circumstances or state of mind. Therefore, opportunity reduction works regardless of whether or not a potential fraudster exists in the workforce at any given time.

Rationalisation

Rationalisation of committing fraud is the most difficult condition to observe because it takes place in the mind of the perpetrator. Rationalization has to do with justifying the fraud. Since many fraudsters view themselves as honest, ordinary people and not as criminals, they have to come up with some reasoning to make the act of committing fraud more acceptable to them. Some common rationalization statements are "I'll just take this money now and pay it back later," "No one will notice," or "I deserve this after all these years with this company." Some fraudsters rationalize his or her behavior by reframing their definition of wrongdoing to exclude his or her actions.

This is a cognitive stage and requires the fraudster to be able to justify the crime in a way that is acceptable to his or her internal moral compass. Most fraudsters are first-time criminals and do not see themselves as criminals, but rather a victim of circumstance. Rationalisations are often based on external factors, such as a need to take care of a family, or a dishonest employer which is seen to minimise or mitigate the harm done by the crime. If the rationalization is successful, the fraudster will not feel guilt or remorse. In fact, he or she may rationalize themselves as the victim.

This paper advocates that compliance programs should attack rationalizations directly, with an aim towards eliminating them. The companies should facilitate communications around fraud, rationalizations and compliance by encouraging "employees to openly discuss rationalizations and how they affect ethical decision-making. This can be accomplished through storytelling by employees and the company. Employees should be encouraged, even required, to meet periodically in small groups to explore the potential effects of compliance violations and white-collar crimes." To make this communication technique more powerful and to make this strategy more powerful is to fully operationalize by having business leaders guide such discussions including "topics such as what regulations are relevant to the business, common compliance pitfalls, and how some business practices produce externalities that negatively impact stakeholders."

Organized crime syndicates

Organized crime is a group of individuals, either local, national or international, that engage in criminal enterprises for profit. The rationale behind why they are formed varies because they may be politically motivated, financially motivated or an organized criminal gang. Organized crime, complex of highly centralized enterprises set up for the purpose of engaging in illegal activities. Such organizations engage in offenses such as cargo theft, fraud, robbery, kidnapping for ransom, and the demanding of "protection" payments. The principal source of income for these criminal syndicates is the supply of goods and services that are illegal but for which there is continued public demand, such as drugs, prostitution, loan-sharking (i.e., lending money at extremely high rates of interest), and gambling.

Typically organised crime and those who perpetrate it are a menace to society. These sophisticated criminals are well organised, well resourced and well equipped. They have no compunction about using violence to achieve their ends, and have no concern for those whose lives they ruin, especially by addiction to the drugs they peddle. The consequences of their activities are misery and human tragedy on a huge scale. Because organized crime is made up of criminals who conspire to carry out illegal acts, a degree of trust is necessary among those criminals. Coconspirators must be able to trust that their collaborators will not talk to the police or to anyone who might talk to the police, and that they will not cheat them out of their money. A shared ethnicity, with its common language, background, and culture, has historically been a foundation for trust among organized crime figures.

Most studies often used in organized crime do not actually relate to organized crime. Most of the income estimates are for all types of criminal activity and include much more than organized crime. The other common characteristic of most studies is a focus on illegal activities, especially drugs and gambling. Less attention is paid to the other side of organized crime: its involvement in legitimate businesses and labor unions. As a result, part of the income of organized crime is not counted and part of its impact on society, through its infiltration of the legitimate economy, is missed. It is known that organized crime involvement in the legitimate economy is increasing. This paper try to categorised the big organised crime performed by private firm, they are as follow.

Money laundering

Money laundering is the act of concealing the transformation of profits from illegal activities and corruption into ostensibly "legitimate" assets. The dilemma of illicit activities is accounting for the origin of the proceeds of such activities without raising the suspicion of law enforcement agencies. Accordingly, considerable time and effort is put into devising strategies which enable the safe use of those proceeds without raising unwanted suspicion. Implementing such strategies is

generally called money laundering. After money has been suitably laundered or "cleaned", it can be used in the mainstream economy for accumulation of wealth, such as acquisitions of properties, or otherwise spent.

Bankruptcy fraud

Bankruptcy fraud is a white-collar crime that commonly occurs when someone wrongfully attempts to gain an economic advantage over someone else-usually creditors-in a bankruptcy case. Most crimes are committed by the debtor filing the bankruptcy matter as a result of hiding property, although everyone involved has an opportunity to game the system. In other words, the most common type of bankruptcy fraud is concealment of assets whereby a debtor hides assets from the bankruptcy trustee so that the trustee cannot liquidate those assets to pay creditors. Concealment of assets involves transferring assets to a friend or family member, or, failing to disclose certain assets or income in the bankruptcy documents. In order to convict a person of bankruptcy fraud, it must be proven that the individual intended to commit the crime. There must be an actual intent to deceive, which requires evidence that there was planning involved. If a person makes a mistake or forgets to include an asset when preparing the bankruptcy documents, this would not constitute bankruptcy fraud because intent is a necessary element of the crime.

Loan sharking

Loan sharking refers to predatory lending practices by individuals or organizations that charge high interest rates. This has become a major source of revenue for the under world and a major route by which crime syndicates have infiltrated legitimate business. When taken over by the loanshaks, these business are used to further outher criminal enterprise. In some cases, the profits from lawful businesses are used for loansharking. Small business owners, for instance, may find themselves in the situation of having few alternatives to seeking illegal sources of credit in order to continue in business. Loansharking shows how illicit profits can be used to generate even more illicit money and, thereby, sustain the growth of organized criminal groups. Loan sharks menace both white- and blue-collar workers as well as small and large corporations. Employees have agreed to disclose corporate secrets, leave warehouses unlocked, steal securities, ship stolen goods, and pass along information about customers, which sets the business up for burglaries. Officers of both small and large corporations are forced to turn over control of their companies to organized crime.

Gambling

Gambling is the wagering of money or something of value (referred to as the stakes) on an event with an uncertain outcome with the primary intent of winning money or material goods. Gambling thus requires three elements be present: consideration, chance and prize. Gambling attracts organized crime. Crime linked to gambling is a huge problem. Large gambling operations require a staff to run them. Most large gambling operations have a sophisticated organization that ranges from the operator who takes bets from customers through people who pick up money and betting slips, to people in charge of particular areas or districts, to the main office or bank. Since the end of the nineteenth century, illegal gambling also became one of the classic activities of organized crime. Nowadays, opportunities for organizing illegal gambling vary considerably between countries owing to differences in gambling laws and gambling cultures.

Antifraud mantra: Prevention and timely detection

Employee fraud is a significant problem faced by organizations of all types, sizes, locations and industries. While we would all like to believe our employees are loyal and working for the benefit of the organization (and most of them probably are), there are still many reasons why your employees may commit fraud and several ways in which they might do it. Most organizations take a fragmented approach to fraud prevention. This leaves them vulnerable to even more attacks, as criminals are quick to find and exploit any points of weakness. This paper attemts to give a list of suggestions for management when establishing an effective anti-fraud program and related controls.

Maintain the “tone at the top”

The connection between fraud and the “tone at the top” of an organization has received international attention over the last few years. Tone at the top refers to the ethical atmosphere that is created in the workplace by the organization's leadership. Whatever tone management sets will have a trickle-down effect on employees of the company. If the tone set by managers upholds ethics and integrity, employees will be more inclined to uphold those same values. However, if upper management appears unconcerned with ethics and focuses solely on the bottom line, employees will be more prone to commit fraud because they feel that ethical conduct is not a focus or priority within the organization. Employees pay close attention to the behavior and actions of their bosses, and they follow their lead. In short, employees will do what they witness their bosses doing. The starting point for setting the tone begins with the organization’s governing authority; generally, this means the board of directors. The board’s most fundamental tasks would typically include hiring the CEO, approving strategy, monitoring execution of the plan, setting risk appetite and exercising appropriate oversight regarding risk mitigations, with the underlying goal of preserving and creating shareholder value.

Assess fraud risk regularly

Many organizations have little knowledge as to their ability to prevent and detect fraud, simply because management has not made it a high enough priority to address. Unfortunately, this approach can lead to the discovery of such vulnerabilities only after a fraud has been perpetrated and discovered, with the economic and reputational damage already inflicted. One key element of an organization’s fraud mitigation program is a fraud risk assessment. A fraud risk assessment is a disciplined approach where members of the team (both internal and external) identify all known fraud risks by transaction type across the organization and related controls in place that might mitigate such risks. To the extent that controls might be in place, the team identifies controls to reduce the fraud risks.

All agencies are subject to fraud risks and need to complete a fraud risk assessment for their agency at least every biennium.

A detailed fraud assessment needs to be performed by division and/or function. Functions and services that need to be included in the assessment are Finance and Accounting, Human Resources Management (payroll), Purchasing and Contracting, and Information Technology. As a part of the assessment, agencies need to look at control environment and information technology as both have a significant effect on fraud risk for most functions.

Financial integrity code of conduct

Regardless of whether your organization is legally mandated to have a code (as public companies are), every organization should have one. A code has value as both an internal guideline and an external statement of corporate values and commitments. All employees have a responsibility to act honestly and to diligently follow the procedures and controls that have been implemented to mitigate fraud and corruption. They must not bypass or avoid using those procedures or controls. They must immediately report identified weaknesses or loopholes in controls that could facilitate a fraud. They must also report immediately any incident of fraud or corruption, whether it is suspected or actual, either to their line manager or by following the procedures laid down in the Whistle-blower Policy. Additionally, a code is a central guide and reference for employees to support day-to-day decision making. A code encourages discussions of ethics and compliance, empowering employees to handle ethical dilemmas they encounter in everyday work. It can also serve as a valuable reference, helping employees locate relevant documents, services and other resources related to ethics within the organization.

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