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THEORETICAL APPROACHES TO IDENTIFYING FINANCIAL FRAUD IN AN ENTERPRISE

Introduction. Corporate fraud is a type of economic crime that encompasses all the various means created through human ingenuity to gain an unfair advantage for a person over another one through deception, trickery, breach of trust, and concealment of the truth.

The purpose of the paper is to identify the main types of corporate fraud, as well as tools for their detection and minimization when making management decisions.

Results. Studying the works of domestic and foreign scientists, it is possible to say that there is no general opinion regarding the dependence of the spread of corporate fraud on the state economy development as a whole. Some of them believe that economic crimes are more typical of post-communist countries, where the level of shadow economy is quite high. Others tend to believe that corporate fraud is widespread in countries with developed economies, because the largest number of transnational corporations is concentrated in their markets and there are many opportunities for committing economic crimes (access to information, advanced technologies, etc.). In addition, there are opinions about the direct impact of crisis phenomena in the world economy on the level of shadow activity of enterprises and, accordingly, on the level of committing corporate crimes. Corporate fraud in companies is currently a rather large problem, which in itself must be considered as a separate "industry".

Conclusion. Corporate fraud causes significant damage to intangible assets, such as: relationships with business partners, reputation, brand image, investment attractiveness, destruction of corporate culture, etc., which are extremely important factors for ensuring the successful operation and development of any business entity. While creating a system to combat corporate fraud, it is necessary that it meets the following criteria: the formation and implementation of anti-fraud measures should not cost more than the losses from the occurrence of potential fraud risks. Solving this problem will not only increase the efficiency of companies, but also reduce their costs and reduce corruption in business.

Keywords: corporate financial fraud, corruption, falsification of financial statements, financial fraud

INTRODUCTION

The development of the national economy depends directly on the condition of financial and economic operations of economic entities. The success of any company, for the most part, depends not only on the ability to manage financial resources effectively, but also to promptly identify external and internal risks that pose threats to ensuring financial stability in the market. One of the dangers of the development of modern business is corporate financial fraud.

In the field of entrepreneurship, corruption schemes manifest in the form of bribery of officials, falsification of financial statements and violation of the principles of market competition. Corrupt practices undermine the fundamental principles of doing business, by means of increasing the financial risks of companies and hindering the attraction of investments. The opacity of administrative procedures and unequal competitive conditions create barriers to the development of innovative entrepreneurship, which reduces the investment potential of the national economy.

The **PURPOSE** of the paper is to study corporate financial fraud, to reveal its characteristic features and ways of manifestation, to study the factors and risks that influence its occurrence, and to find ways to combat financial fraud in modern conditions.

MATERIALS AND METHODS

The methodological and informational basis of this scientific research is the analysis of papers, scientific works of domestic and foreign scientists on financial fraud in business, as well as statistical data, regulatory legal acts and Internet resources. In the process of scientific research, the methods of analysis and synthesis, induction and deduction, observation and comparison were used.

The following domestic and foreign scientists have devoted their works to the study of financial fraud issues, including the study of the risks of abuse at the corporate level: L. Honchar, M. Danyliuk, L. De Koker, M. Karlin, V. Mysiuk, M. Nezhyva, V. Shevtsov, et al. However, despite the significant number of scientific studies on the outlined issues, the issue of identifying the main signs of corporate fraud in modern conditions and finding effective methods to combat it remains an urgent problem today and requires more in-depth study.

RESULTS

Fraud is most often considered a global phenomenon, shaped by the complex interaction of economic, psychological and social conditions. Virtually every company – regardless of its size, industry specialization or location – is prone to corruption risks.

Therefore, corporate financial fraud should be understood as intentional conscious actions of company managers or its employees that are contrary to the law, associated with abuses of both a financial and moral nature, harm the interests of the company and society as a whole.

The growth of the number of corporate financial crimes and, as a result, the manifestation of negative consequences from them necessitates the study of ways and mechanisms for detecting and preventing fraudulent actions. However, in order to form a system for preventing and investigating professional fraud properly, it is necessary to consider the main factors that influence it. There are external and internal factors that contribute to the spread of corporate fraud:

– external: inflationary processes; contradictions in tax legislation; unfair competition; abuse by suppliers and consumers; corruption schemes in public procurement; force majeure, etc.;

– internal: lack of labor discipline; possibility of providing unreliable and distorted information; incompetence of officials; lack of audits and independent checks; insufficient control measures; unlimited official powers; existence of circular liability in the team; complex organizational structure of the business; violation of the principle of inevitability of punishment; weak financial control by the owners of the company, etc.

Despite the presence of all these factors, it should be noted that the main driving force in committing fraudulent schemes is labor resources, as the basis for business development. There are three main reasons that encourage employees to commit criminal acts within the company: official position, external circumstances and justification [1, pp. 65-66]. These factors can be called the "cornerstone" of corporate fraud. The official position serves as a favorable opportunity for some time to commit and hide fraud, using financial resources for personal purposes (lack of internal control and low production discipline); pressure from external circumstances caused by a multitude of reasons of a material and social nature that a person is unable to overcome (irresistible desire for personal gain, feeling of inconsistency between the level of salary and the scope of assigned duties, personal debt obligations); justification of fraud through internal convictions of the correctness of the criminal actions committed (difficult life situation, conflict with the company's management, etc.).

Depending on the category of the business entity committing the crime and corporate fraud can be divided into the following types:

- 1) fraud by directors or managers (conspiracy to bankrupt the company and withdraw assets);
- 2) embezzlement or theft by employees (ordering services from third-party organizations at inflated prices with the condition of paying employees a certain amount as compensation);
- 3) fraud by suppliers (supply of low-quality raw materials);
- 4) fraud by customers (non-payment of completed orders);
- 5) fictitious investment (investment in a company that goes bankrupt in order to obtain an illegal benefit) [2, P. 171].

Corporate financial fraud at the present stage manifests in various forms. It is constantly transforming and acquiring new features depending on the dynamics of economic trends.

According to the classification of the Association of Certified Fraud Examiners (ACFE), corporate fraud can be divided into three main categories: misappropriation of property, corruption and fraud with financial statements.

Vivid examples of financial abuses regarding the appropriation of assets at present are both frauds with funds and fraudulent schemes for the appropriation of assets that are humanitarian aid or aid to the Armed Forces of Ukraine, the conclusion of unprofitable agreements in favor of the company's management or other persons, the purchase of non-existent goods and services by the company, the registration of "dead souls" at the enterprise and the appropriation of their salaries, payments to individual employees that are not provided for by law or the employment contract, etc. [3, P. 278].

A common type of corruption in Ukrainian business is receiving an illegal benefit for providing advantages over other contractors. Such violations are abused by employees who make decisions about tenders, determine the passing price and the winner of the procurement. First of all, these

are company executives, procurement department managers, and tender committee members. Providing advantages may consist in concluding a contract in the presence of other more favorable offers for the company, determining conditions that are less favorable for the company (increasing the price, reducing the payment term, etc.), and transmitting insider information about the procurement (what is the lowest proposed price, etc.).

Overstatement or understatement of equity (net profit) is the least common, but the most damaging type of corporate fraud. As a rule, distortion of the income or expense part of financial statements is committed by the company's top management when there is a "director-owner" conflict or a "corporate war" between the company's owners. Fictitious business transactions artificially overstate the company's expenses, which makes it impossible to pay dividends to shareholders and to pay the real amount of taxes and tax payments to the budget [4, pp. 164-165]. Each of these categories of fraud has its own specific characteristics, with the help of which it is possible to establish the fact of financial abuse and develop programs aimed at preventing and detecting violations in the activities of companies. These signs are: fraudster, value assessment of fraud (materiality of detected losses), frequency of fraud, presence of motive or pressure, benefit of whom/what is the abuse directed at, volume of assets and hierarchical management structure of the company.

In the annual ACFE report "Report to the Nations" in 2024, Ukraine ranked among the highest in terms of the number of detected cases of corporate fraud among the countries of Eastern Europe, Western and Central Asia. Thus, the share of financial abuses of Ukrainian companies is about 15% of the total volume of detected cases [5]. Every year in the world, an average company loses up to 5% of its annual revenue as a result of abuses by its managers. The average losses of domestic companies over the past two years are significantly higher (approximately 2-3 times), which is due to the difficult political, economic and social situation associated with the consequences of epidemics and military operations in Ukraine [5-7].

According to ACFE, the most common types of corporate financial fraud are falsification of financial statements, corruption and misappropriation of company assets. As can be seen from Fig. 1, the most common type of corporate fraud is misappropriation of assets, in which an employee steals or misuses the employer's resources.

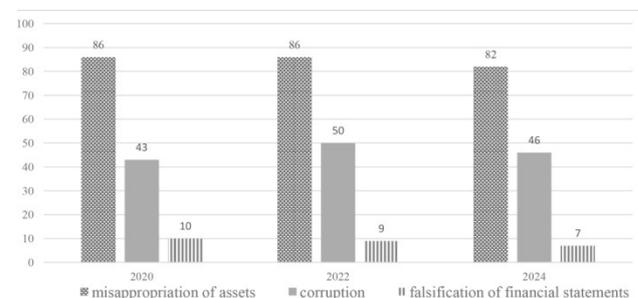


Fig. 1. Types of corporate fraud in the world, % (compiled by the author based on [5-7])

During 2020-2024, the share of fraudulent schemes for the appropriation of property has hardly changed and is 82%. As for corruption, this type of fraud increased in 2022

to 50%, which is 16% more compared to 2020. On a positive note, in 2024, the share of corruption schemes in the global space decreased to 46% compared to the previous period [5; 7]. Financial reporting fraud schemes, in which the perpetrator intentionally causes material misstatements or omissions in the company's financial statements, are the least common and decreased to 7% in 2024 [5].

CONCLUSIONS

Corporate fraud causes significant damage to intangible assets, such as: relationships with business partners, reputation, brand image, investment attractiveness, destruction of corporate culture, etc., which are extremely important factors for ensuring the successful operation and development of any business entity [3, p.276].

Many domestic companies invest huge resources to combat fraud, but this does not solve the problem radically and leaves many opportunities for committing crimes. World

practice is aimed at preventing fraud by creating a "corporate spirit" [8]. Moreover, it is important to clearly understand what measures to prevent economic crimes are aimed at: eliminating the motive or justification for corporate fraud.

Moreover, when creating a system to combat corporate fraud, it is necessary that it meets the following criteria: the formation and implementation of anti-fraud measures should not cost more than the losses from the occurrence of potential fraud risks. It is also worth remembering that a large company can afford to create an economic security structure, since for a small enterprise it is expensive, impractical and does not meet the above criteria.

Solving this problem will not only increase the efficiency of companies, but also reduce their costs, reduce corruption, since fraudulent actions in companies bring significant losses to society as a whole.

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ТЕОРЕТИЧНІ ПІДХОДИ ДО ІДЕНТИФІКАЦІЇ ФІНАНСОВОГО ШАХРАЙСТВА НА ПІДПРИЄМСТВІ

У статті досліджуються теоретичні підходи до ідентифікації корпоративного шахрайства. Визначено, що корпоративні шахрайства – це основна причина занепаду як зовнішньої, і внутрішньої економіки країни. Автором розглянуто зовнішні та внутрішні фактори, які сприяють поширенню фінансового шахрайства на підприємстві, подано їх детальну характеристику та умови прояву. Встановлено, що основною рушійною силою у вчиненні шахрайських схем постають трудові ресурси, як основа розвитку бізнесу. Виокремлено три основні причини, що спонукають співробітників здійснювати злочинні дії всередині компанії: службове становище, зовнішні обставини та виправдання.

Структуровано класифікацію різновидів фінансового шахрайства залежно від об'єкта шахрайських дій. У статті зазначено, що корпоративне шахрайство можна поділити на три основні категорії: незаконне привласнення майна, корупція та шахрайство з фінансовою звітністю. Автором доведено, що кожна з цих категорій шахрайства має свої специфічні ознаки, за допомогою яких можна встановити факт фінансових зловживань та розробити програми, спрямовані на запобігання та виявлення порушень в діяльності компанії.

Крім цього, проаналізовано, що кожного року у світі середньостатистична компанія втрачає до 5% річного обсягу виручки у результаті зловживань зі сторони своїх менеджерів. Встановлено, що середні втрати вітчизняних компаній за останні два роки є значно вищими (приблизно в 2-3 рази), що зумовлено складною політичною, економічною та соціальною ситуацією, пов'язаною з наслідками епідемій та воєнних дій на території України. У статті зазначено, що керування фінансовими ризиками сприяє прийняттю ефективних управлінських рішень в умовах невизначеності та дає змогу оцінити їх вплив на господарську діяльність суб'єкта господарювання.

Автором доведено, що у створенні системи протидії корпоративному шахрайству необхідно дотримуватись умови: формування та реалізація антишахрайських заходів не повинні коштувати дорожче, ніж збитки від настання потенційних ризиків шахрайства.

Ключові слова: корпоративне фінансове шахрайство, корупція, підробка фінансової звітності, фінансові махінації