

PREVENTING FINANCIAL AND ACCOUNTING FRAUDS: ETHICS IN BUSINESS MANAGEMENT

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ABSTRACT

In today's competitive world, every organisation is giving cutthroat competition, but financial and accounting frauds are hollowing the corporate world internally. Fraud is deceptive act to gain some financial and personal profit. Here in this paper we would cover the financial reporting fraud, social accounting reporting, forensic accounting which would help to prevent the frauds in accounting at all levels. Financial statements are the main documents of the organisation which reflects the financial position of the company. Tampering with these documents lead to devastating results. Social accounting reporting emphasize on accountability of business towards the nation. It provides accountability to stake holders to both internal and external. Forensic accounting is that field which investigates or inquire the frauds in the accounting and financial statements. Corporate governance acts as a safeguarding tool to the investors and other stakeholders by providing information of the activities of the company.

Keywords: *Corporate governance, financial statements fraud, forensic accounting, social accounting reporting.*

Introduction

Financial Statement fraud is defined as that the misrepresenting information about the financial statements to enhance the financial health of business in the any corporation. This refers that the financial statement fraud is designed or committed by the senior and mid-level management. The senior management cover-up the fraudulent, to exceed the earning of ever growing corporate greed. Financial and accounting frauds are intentional to have personal gain. It has become very difficult to identify the financial and accounting fraud in today's world. The auditors are sometimes not well experienced and company easily manipulates them. Even when auditors try to take any action, the corporation bribes them to not to

disclose the frauds and manipulation done by the organisation just for preventing the reputation of the organisation in the market. So audits and checks also fail at that time. After knowing the loopholes of the audit system accountants try to advantage and misrepresent the statements which lead to the frauds.

Financial statements fraud: Financial statements consist of two major things i.e. income statement and second one is position statement. Income statements provide the true picture of profit and loss of the business. Position statement are also known as balance sheet which depicts the true position of the business. But financial statements manipulations are increasing day by day in this current competitive corporate world. This leads to decrease in investors' confidence in the business.

The following figure shows the basic types of financial statement fraud:

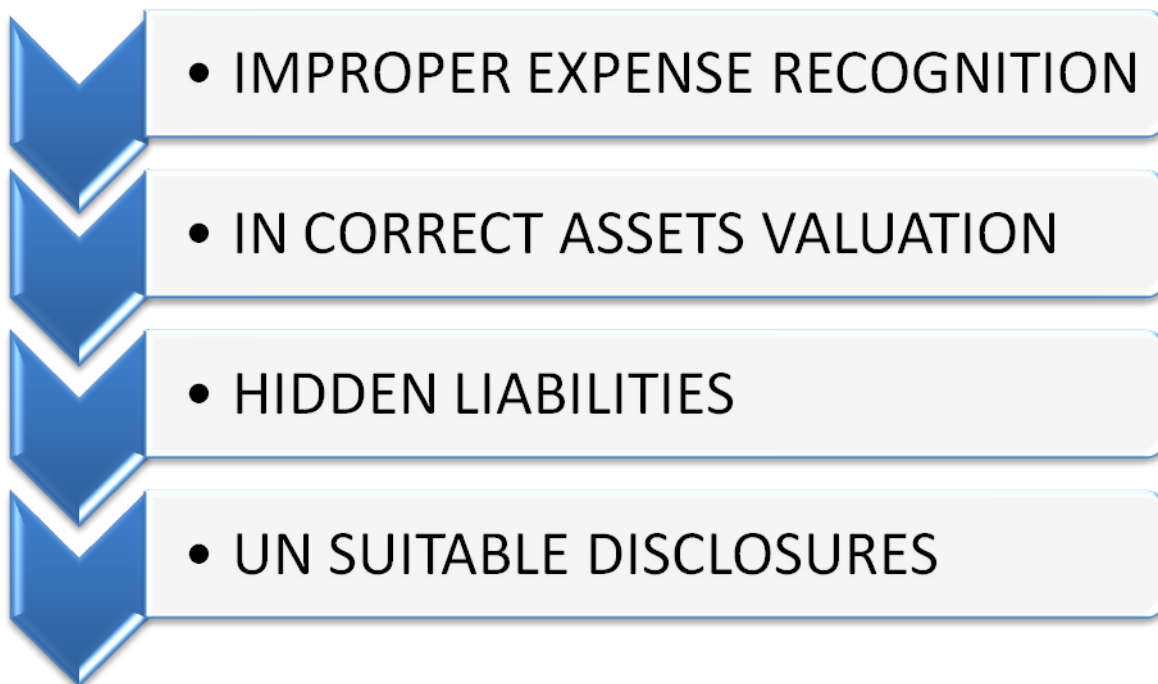


Fig: Types of financial statement fraud

In business org. the trusted employees is confessed to misrepresent the company funds. Some type of fraud as following also:-

- (a) Assets misrepresentation
- (b) Skimming of Company Assets
- (c) Misuse of Company assets
- (d) Frauds with public
- (e) Intellectual property and Trade Secrets

a) Assets misrepresentation: It is manipulation in the values of assets.

b) Skimming of Company Assets: Fake bills, fake vouchers creation are examples of this type of fraud.

c) Misuse of Company assets: It is not difficult to detect but not using the assets for business purposes.

d) Frauds with public: Public are being looted by the companies through different ponzi schemes, telemarketing. For e.g. People are called through to activate their ATM cards and information related to their bank account and cards are being taken by the telemarketers.

e) Intellectual property and Trade Secrets: in today's era , it is very important to keep intellectual property and trade secrets safe from theft.

Accounting fraud

When employees, organization intentionally dodge accounts of the organization or even cover-up theft of company's account or misrepresent the account of the organization .This happens may be in form of the payable and receivable form. The accounting fraud is consisting that when trustworthy employees misuse their position in organization and want to increase their earning in monetary terms. This fraud is conducted by the perspective persons who are control and maintain the funds, procurement, shares payable etc.

This fraud is consisting following element:-

FAKE SUPPLIER: - This is a fraud, which is depending on the fake supplier, who is presenting fake bill in organization in operation.

PERSONAL PURCHASES: - Some Employee is want to thing purchases from organization to personal but they are not mention in accounting records.

DOUBLE- CHECK FRAUD:- This type of fraud is mainly we are seeing in agent cases, Personal assistant , they are write a check to pay for using organization and then second check is also pay for himself in business perspective.

EMBEZZLEMENT: - This type of fraud, in which a person who control over the fund or procurement or Account system, is being used to his need.

PAY ROLL FRAUD: - Pay roll is the listing process in which they listed Companies employees are consisting who is permanent in the organization. This fraud is working there as misrepresenting the salary and over time and incentive or Appreciation in monetary terms.

WINDOW DRESSING: Window dressing means manipulation of accounts in away so as to conceal vital facts and present the financial statements in away to show better position than what actually is.

Forensic Accounting : - The Forensic Accounting is a technique to analyze or to investigate the fraud relative to accounting and provide clear Information bylaw. The concept of forensic accounting comes into existence after the increase of accounting and financial frauds. Forensic means scientific methods to detect any crime .The larger Accounting firms, police and Government agencies have the Specialist of Forensic Accounting Department. Forensic accounting presents the financial fraud and clerical frauds.

FORENSIC ACCOUNTING = INVESTIGATING + AUDITING + ACCOUNTING

Need of Forensic Accounting

1. Forensic accounting ensures the use of accounting principles in effective way.
2. To investigate suspicious things happening in the organization.
3. To test and look into the matters genuinely
4. The reports prepared by the accountants can be shown as proof.
5. To find the tax evasion by the organization.

Steps in Forensic Accounting: The following steps can be included in forensic accounting

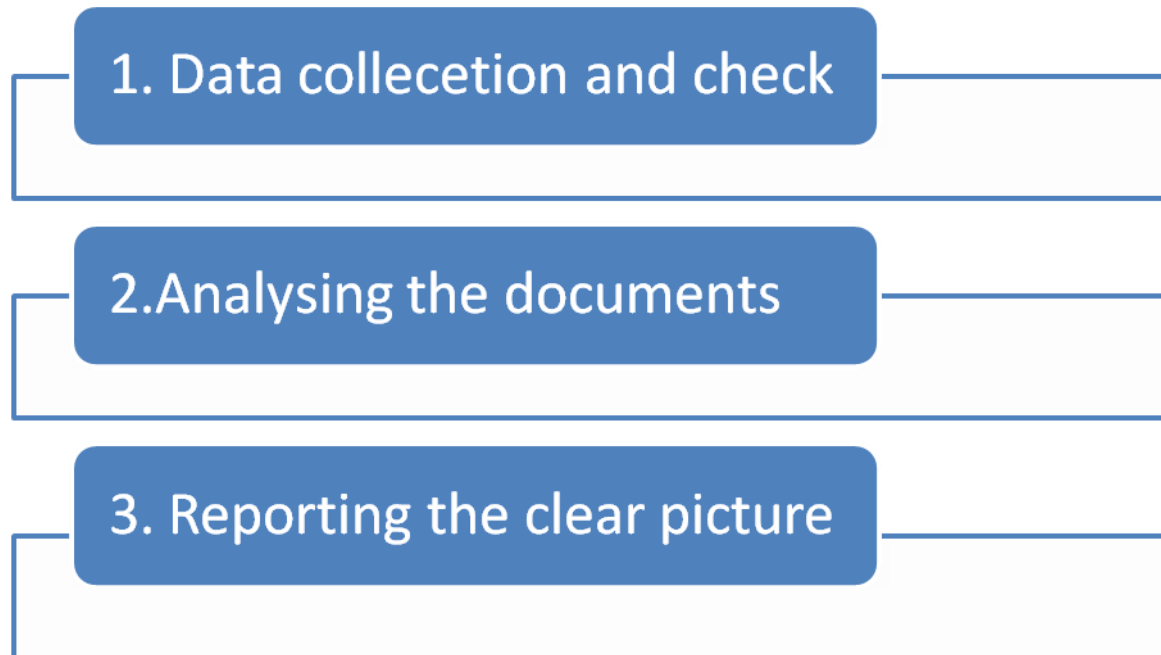


Fig: Steps in forensic accounting

Forensic Accounting in Use

1. Fraud by employees: When employees enjoy the benefits of fraud done by them in the organisation, forensic accountant questions them and try to find out the benefits they are having by the fraud.
2. Frauds by negligence of principles: There are certain principles of accounting which are generally accepted by all the accountants in the world. Due to negligence of these principles and taking benefits of loopholes frauds take place.
3. In Insurance claims: Sometimes people take advantage of insurance policies just to have financial assistance in their life; forensic accountant helps to find the real image of the picture.

Social Accounting: Social accounting, a concept which widens the scope of accounting. It is concerned with more than economic events in the business. Business must be responsible for the people and the country from where it utilizes the resources to earn profit. Business must be accountable to different sets of stakeholders which contribute towards its financial

success. The implementation of this concept will lead organisation to be ethically and morally strong towards the country. CSR also includes in this.

Social reporting is a concept which improves transparency and accountability of the business and also develops the organisation. Stakeholders judge the organisation in every aspect, and to be trustworthy organizations have to win trust which can only be done when business is practiced in fair manner.

Corporate governance: It can be understand by two things:

1. Corporate level: It includes all the employees of the organisation must behave in the best interest of the stakeholders. Some employees take advantage and fulfill their greed by neglecting the interest of the shareholders and for whom the organisation is responsible.
2. Shareholders value: When organisation is true to shareholders and other stakeholder's, people will trust the organisation and automatically it will increase the financial growth of the business. There should be balance between shareholders, stakeholders and business interest.

Conclusion: As business has started to be dependent on Information technology, manipulation has increased and checks should be there at all levels. Timely audits can be helpful to prevent fraud. There should be strict management checks within the organisation. The employees of the organisation must understand about the ethics and principles of the organisation. Corporate governance looks into the organization's accountability between shareholders, management, and senior level people.

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