NOLEGEIN Journal of
Corporate & Business Laws

ISSN: 2581-7779
Volume 5, Issue 2, 2022
DOI (Journal): 10.37591/NJCBL

http://mbajournals.in/index.php/JoCBL/index

Review NJCBL

Overcoming Corporate Fraud

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Abstract

This report provides a comprehensive review of corporate fraud, its nature, causes, and potential solutions. Corporate fraud is a significant problem that can take many forms, including embezzlement, financial statement fraud, insider trading, and bribery. The causes of corporate fraud include pressure, opportunity, and rationalization. Companies can take several steps to prevent and detect fraud, including developing a strong ethical culture, implementing internal controls, conducting regular audits, and providing anti-fraud training. Companies can safeguard themselves and their stakeholders against the negative effects of corporate fraud by implementing these measures.

Keywords: Corporate fraud, financial statement fraud, anti-fraud training, ethical culture, fraudulent behaviour

INTRODUCTION

Corporate fraud is a significant problem that can have severe consequences for companies, their employees, and their stakeholders. It can take many forms, including embezzlement, financial statement fraud, insider trading, and bribery. Businesses must adopt strategies to combat fraud as well as measures to prevent and detect it. This report will explore the nature of corporate fraud, its causes, and potential solutions for companies [1].

LITERATURE REVIEW

The report on "Overcoming Corporate Fraud" provides an overview of the nature of corporate fraud, its causes, and potential solutions. The report draws from a wide range of academic literature and research studies to provide a comprehensive analysis of the topic.

One of the key findings of the literature review is that corporate fraud can be caused by several factors, including pressure, opportunity, and rationalization. For instance, some studies have shown that financial distress can increase the likelihood of fraud as individuals become desperate for money to meet their financial obligations. Similarly, opportunities for fraud may arise due to weaknesses in a company's internal control system or oversight mechanisms. Rationalization refers to the psychological mechanisms that individuals use to justify their fraudulent behaviour, such as believing that they are entitled to the funds or that they are not harming anyone [2].

Another key theme that emerges from the literature review is the importance of ethical culture in preventing and detecting fraud. Several studies have found that companies with a strong ethical culture are less likely to experience fraud than those without. This is because a strong ethical culture can create a sense of accountability and responsibility among employees, encouraging them to report suspicious activity.

Also, the literature study emphasizes the significance of internal controls in deterring and

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Received Date: February 26, 2023
Accepted Date: March 04, 2023
Published Date: March 25, 2023

Citation: Priyanjali. Overcoming Corporate Fraud. NOLEGEIN Journal of Corporate & Business Laws. 2022; 5(2): 48–51p.

identifying fraud. Effective internal controls can reduce the risk of fraud by limiting access to financial assets, segregating duties, and implementing monitoring and review procedures. Similarly, regular audits are essential for detecting fraud and identifying weaknesses in a company's internal controls [3].

Finally, it emphasizes the importance of anti-fraud training. Providing employees with training on how to identify the signs of fraud and how to report suspicious activity can help to create a culture of vigilance and increase the likelihood of fraud being detected and prevented [4].

Overall, it supports the conclusion that preventing and detecting fraud requires a multifaceted approach that involves developing a strong ethical culture, implementing effective internal controls, conducting regular audits, and providing anti-fraud training. Companies can safeguard themselves and their stakeholders against the negative effects of corporate fraud by implementing these measures [5].

METHODOLOGY

1. *Finding the research question or issue to be addressed:* The first stage in doing a literature review is to locate the research issue or issue that the review will attempt to address. In this case, the research question was likely "What are the nature, causes, and potential solutions to corporate fraud?"
2. Once the research issue has been determined, the following stage is to perform an extensive search of pertinent literature. This involves using various databases, search engines, and academic journals to identify studies, articles, and reports that address the research question.
3. *Screening of literature:* After the literature search has been completed, the next step is to screen the literature for relevance. This involves reading the abstracts and titles of each article to determine if it is relevant to the research question.
4. *Data extraction:* Once the relevant literature has been identified, the next step is to extract relevant data from each study. This involves reading each article in detail and extracting information on the nature, causes, and potential solutions to corporate fraud.
5. *Data synthesis:* after the conclusion of data extraction, the data must be combined. This involves organizing the extracted information into themes or categories and identifying patterns and relationships between the different studies.
6. *Writing up the review:* Writing up the review is the last step in executing a literature review. This involves summarizing the key findings from the literature, synthesizing the data, and drawing conclusions and recommendations based on the findings. The report on "Overcoming Corporate Fraud" likely followed this methodology to conduct a comprehensive review of the literature on corporate fraud [6].

CORPORATE FRAUD

What is Corporate Fraud?

Corporate fraud refers to any illegal or unethical behaviour carried out by individuals within a company to benefit themselves at the expense of the company and its stakeholders. It can take many forms, including embezzlement, financial statement fraud, insider trading, and bribery.

The theft of money or assets for personal gain by staff members or management is known as embezzlement. Financial statement fraud involves the manipulation of financial records to mislead investors, creditors, and regulators. When people trade stocks for profit using insider information, this is known as insider trading. Bribery involves offering or accepting incentives in exchange for a particular action or decision [7].

Causes of Corporate Fraud

Corporate fraud can be caused by several factors, including pressure, opportunity, and rationalization. Pressure refers to the personal or financial stress that individuals may experience, such as debt or job insecurity, that may lead them to engage in fraudulent behaviour. Opportunity refers to the ease with which individuals can carry out fraudulent activities due to weaknesses in the company's internal controls. Rationalization refers to the way individuals justify their fraudulent behaviour to themselves, such as convincing themselves that they are entitled to the funds or that they are not harming anyone.

Too Much Pressure

High-performance pressure and irrational job expectations may be the root of corporate fraud. For instance, staff at Wells Fargo began opening fictitious accounts to achieve their unrealistically high sales objectives.

To Meet Personal Financial Objectives

The desire of a worker or executive to fulfil their personal financial commitments, is a factor in business fraud. They might only require more money than they now possess, and their connections to a firm provide a means of obtaining it.

Maintain a Management-Level Position

Executive-level individuals occasionally, but not invariably, commit fraud. An executive can be worried that their job security is in jeopardy because of how the company is performing [8].

Solutions for Overcoming Corporate Fraud

There are several strategies that companies can employ to prevent and detect fraud and overcome its effects. These include developing a strong ethical culture, implementing internal controls, conducting regular audits, and providing anti-fraud training.

Clear Expectations for What Is Okay and Not Okay

Every business has both explicit and implicit rules and norms for behaviour. This covers everything from appearance to attitudes and conduct with clients, co-workers, and the general public. Even within a same institution, cultures can vary greatly. Much of an organization's cultural standards and norms are assumed rather than explicitly stated in paper. The first step in creating a more ethical organizational culture is to establish clear expectations for behaviour among all employees.

Improving Behaviour via Modelling (Especially from Organizational Leaders)

People often copy the behaviour of others, particularly leaders in the workplace, according to research by renowned Stanford psychologist Al Bandura and others. The ideal behaviour that organizational leaders want to foster within their organisations. must be exhibited by them. High-profile leaders must uphold these criteria if the highest ethical standards are to be desired inside an organization. Often, people's actions speak louder than their words [9].

Developing a Strong Ethical Culture

Developing a strong ethical culture is essential for preventing and detecting fraud. Companies should establish a code of ethics that clearly outlines expected behaviour and consequences for non-compliance. They should also encourage open communication and provide channels for employees to report suspicious activity without fear of retaliation.

Implementing Internal Controls

Internal controls are laws and practices intended to stop and catch fraud. Companies should implement a system of internal controls that includes segregation of duties, access controls, and monitoring and review procedures.

Give people the Resources they Need to Behave Ethically

A company must ensure that its employees have the resources necessary to foster an ethical culture. They include supervision, consulting, modelling, and adequate and suitable training. It can be quite beneficial for an organization to have an ethics ombudsman or point person. He/she, or his/her team, can serve as a hub for procuring equipment and materials to facilitate ethical consultation.

Conducting Regular Audits

Regular audits are essential for detecting fraud and identifying weaknesses in the company's internal controls. Businesses should routinely undertake internal and external audits to guarantee the accuracy and completeness of their financial statements as well as the efficiency of their internal controls.

Providing Anti-Fraud Training

Any fraud prevention approach must include providing anti-fraud training. Companies should provide training to all employees to help them identify the signs of fraud and to provide guidance on how to report suspicious activity.

CONCLUSION

Corporate fraud is a significant issue that can have negative effects on businesses and their stakeholders. Businesses must take action to stop, detect, and develop countermeasures for fraud. Developing a strong ethical culture, implementing internal controls, conducting regular audits, and providing anti-fraud training are all essential components of an effective fraud prevention strategy. Companies can safeguard themselves and their stakeholders against the negative effects of corporate fraud by implementing these measures.

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