

## ЕКОНОМІЧНА БЕЗПЕКА

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### BASICS OF PREVENTING THE ECONOMIC CRIMES DURING A FORENSIC-AUDIT

**Наталія Протопопова, Євгенія Коваленко-Марченкова, Біджай Кумар Кандел. ОСНОВИ ЗАПОБІГАННЯ ЕКОНОМІЧНИМ ЗЛОЧИНАМ ПІД ЧАС ФОРЕНЗІК-АУДИТУ.** В умовах глобального поглинання бізнесу в фінансових махінаціях та шахрайствах актуальнішим стає використання форензіку на підприємствах. В статті розглянуто поняття «форензік», методи його проведення та призначення загалом. Визначено переваги та недоліки, проаналізовано необхідність форензік-аудиту як засад запобігання економічним злочинам. У статті визначено поняття «форензік-аудит» як важливий аспект запобігання економічним злочинам на підприємствах. За необхідності фахівці розробляють і впроваджують на підприємстві програму боротьби із шахрайством, яка включає елементи запобігання, виявлення та реагування.

Авторами розглянуто процес форензік-аудиту. Його процедура – це комплексна перевірка всіх підрозділів компанії. Але алгоритм цієї перевірки може відрізнитися залежно від цілей, для яких вона працює. Також форензік-аудитори вивчають показники прибутковості підприємства, його ліквідність, наявність кредиторської заборгованості, боргів зі сплати податків або розрахунків з персоналом. Крім того, за допомогою спеціальних методів здійснюється аналіз структури компанії та ризики щодо відмивання грошей, адже це допоможе виявити вразливі місця в господарській діяльності та заблокувати їх. Зазначено, що форензік-аудит проводиться не тільки при підозрі на розкрадання коштів на підприємстві. Ця процедура є своєрідним тестом на ефективність команди та внутрішніх бізнес-процесів у ній.

Зроблено висновок, що аудит як ніколи необхідний кожному підприємцю, який прагне до

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ефективного ведення свого бізнесу та захисту інтелектуальної власності. І звідси саме вчасне проведення такої експертизи як основи запобігання економічним злочинам дозволить власникам компанії мінімізувати фінансові втрати та захистити свою ділову репутацію.

**Ключові слова:** *форензик, форензик-аудит, шахрайство, економічна безпека, підприємство, бізнес, результати аудиту, грошові потоки, фінансові результати, власник, компанія, збитки, ефективність.*

**Relevance of the study.** The question of economic security of the company remains relevant for every entrepreneur. After all, the desire to have a successful and efficient business is above all else. Nowadays, the owners are constantly trying to stay afloat. They make business plans, monitor the market, attract specialists, try to control the work process. But it is simply impossible to cover everything and that too 24/7. Therefore, it is more appropriate than ever to involve forensic experts.

**Recent publications review.** The word "forensic" literally translates as "before the forum" originates from the times of Ancient Rome, where there was a tradition of presenting disputes or crimes before a large audience - the forum. Both the criminal and the accused had to argue their position, and the most convincing one won. In English-speaking countries, the term "forensics" is often used as a synonym for criminology – the science of investigating crimes. Therefore, it is not surprising that there are many definitions of this concept, and scientists who considered it from different sides.

**The research paper's objective** is to define the concept of "forensics" as an important aspect of preventing economic crimes at the enterprises.

**Discussion.** In Ukraine, the concept of "forensics" is a new and little-known phenomenon, unfortunately. After all, this innovative business tool can help shed light on the real picture of the company's work. Corruption, fraud, raider attacks, attacks on intellectual property, computer crimes – this is far from a complete list of threats that companies have to face every day in the process of carrying out their activities. According to various estimates, the most common crime that companies suffer from is misappropriation of property [7].

Forensics is an independent service, although it is considered as one of the forms of control. By definition, the authors consider forensics as:

- activity on settlement of disputed issues;
- analysis and consideration of high-risk transactions;
- activity that examines and analyzes the actions of the organization and individual employees that contradict laws and other regulatory acts;
- investigation of the actions of the company's top management [8].

The only thing that is not taken into account by the authors is the fact that the main direction of forensics is the detection of all types of fraudulent activities.

Forensics is a form of expert research that is conducted at the invitation of managers, investors, and shareholders in order to uncover fraud and identify organizational risks [1].

Forensics is a so-called company scan. Its activities, internal processes, financial results, absolutely everything. The main goal of forensics is to ensure the security of the company. So that all assets, resources are used exclusively for their purpose and under the control of the owner.

There are methods of combating corporate fraud. One of which is WBS (whistle blowing system – feedback system). Which, in turn, is considered one of the most effective. Forensics helps resolve corporate disputes between shareholders/partners. Forensics allows:

- resolve the situation in the order of pre-trial regulation – mediation (though not always) and with minimal damage to one's own interests;
- increase business efficiency;
- ensure investment security;
- to collect the evidence base for legal disputes.

For this, special methods of information collection are used. That is:

- various types of complex inspections of all business units;
- forensic check-express-diagnosis of business for fraud (fraud) within the enterprise;
- OSINT and HUMINT – special methods of collecting and obtaining information (both directly from people and from other sources).

Moreover, forensic experts can use their own methods depending on the situation of a specific company.

The question arises whether there are negative effects from using this procedure [3]. Of course, everyone can find their "underwater" sides here, but in any case, after conducting

forensics, the owners have a great opportunity to check the professional competence of the company's managers or identify unscrupulous entities. One way or another, forensics gives an impetus to the further work of the enterprise.

It is possible to point out a number of issues that make the need for a forensic audit clear:

- employees are 100 % satisfied with their salary?
- employees are 100 % satisfied with their financial situation?
- employees Do they already have everything they have been striving for since childhood?

Experts believe that if you answer "no" to these questions, the probability of fraud at the enterprise is 50 % [4]:

- is there an approved plan for responding to fraudulent actions?
- are there resources for an independent investigation?
- have the necessary means of evidence of financial fraud been developed?
- has a system been developed for collecting electronic and documentary evidence of financial fraud?
- were the facts of fraud discovered in the last year?

If the answer is still "no" to the previous questions, there is a 100 % probability that the company will be stolen.

If necessary, specialists develop and implement an anti-fraud program for the enterprise, which includes elements of prevention, detection and response.

Let's consider the process of conducting an investigation. The forensics procedure is a comprehensive check of all company departments. But the algorithm of this check may differ depending on the purposes for which it is initiated. Other factors also have an impact, for example, the size of the company or the industry in which it operates.

But in any case, the first thing that forensic experts pay attention to is:

- completeness and reliability of the company's financial statements;
- the level of internal control systems in the company;
- the presence of corporate regulations and policies, for example, procurement policies and the granting of discounts by the commercial department of the company;
- the presence of a conflict of interests in the company, for example, a combination of job duties;
- audit findings for past years [2].

Forensic experts also study the company's profitability indicators, its liquidity, the presence of payables, debts for tax payments or settlements with personnel. In addition, with the help of special methods, an analysis of the company's structure is carried out for the risk of money laundering – this will help to identify vulnerabilities in the business and block them. Or go after fraudsters, if the fact of theft is still confirmed.

In parallel with the verification of the documentation, the HUMINT (Human source intelligence) procedure is carried out – an operational survey of the personnel. It is of different types and can cover both the entire staff, including top management, and individual employees.

It is important to note that forensics is conducted not only when there is suspicion of theft of funds in the company. This procedure is a kind of test for the effectiveness of the team and internal business processes in the company. A convenient opportunity to assess how well the business is working and what risks are present or may arise in the future [11].

The work of forensic scientists is directly related to solving crimes and finding the culprit, forensic scientists often conduct operational and investigative activities. They conduct full-scale interrogations and often look for perpetrators. But only intellectual knowledge of accounting, finance, jurisprudence, analytical potential and the ability to notice details are used to search for evidence and form an evidence base, because it is often in them that the thread of a fraudulent scheme is hidden. Therefore, the work teams of forensic scientists often include: accountants, auditors, lawyers, analysts, former law enforcement officers. For all its focus on investigating crimes, forensics is not only about fraud. It can also be used to solve other problems:

- to conduct corporate intelligence;
- conduct a feasibility study of startups;
- check the trustworthiness of business partners, counterparties and other legal entities and individuals;
- to collect the evidence base for forensic or forensic examination, because the

presence of forensic examination increases the chances in Ukrainian courts.

Forensics in the world is a serious direction that unites specialists in specific organizations. For example, ACFE (Association of Certified Fraud Examiners) is an international association of certified fraud investigation specialists. They develop rules for conducting investigations, codes of conduct, etc. Annual reviews by types of internal investigations are also published [5].

Based on the results of the discussion, a number of recommendations were identified that will be useful in the investigation of fraud:

- you need to know your counterparty and competitor;
- bypass the fictitious director;
- the counterparty's criminal case – the owner's case;
- use of attorney investigations as a format of evidence;
- procedures and control, control and procedures [9].

In particular, it is worth gathering as much information as possible about competitors and counterparties, especially in the case of a criminal case investigation involving the latter, paying close attention to the fact of the presence of a fictitious director, etc.

The main areas of internal investigations include:

- anti-corruption investigations;
- investigation into projects funded by international development institutes;
- investigation of cases of corporate fraud;
- investigation of violations of internal policies, labor discipline.

Every two years since 2009, the PWC company publishes the results of research on the sources of fraud in Ukraine, economic crimes and fraud.

101 representatives of various Ukrainian organizations, both private and public sector, took part in the 2018 survey. Ukraine took sixth place in the ranking of countries with the largest number of economic crimes [2]. According to the results of the survey, the following data were established [7]:

- 48 % of organizations suffered from economic crimes and fraud during the last two years;

- 56 % of all cases of fraud were committed by employees of organizations;

- 73 % of respondents indicated bribery and corruption as the most significant economic crime;

- 14 % of fraud cases were discovered accidentally. According to the results of the survey, the following data were established [7]:

- 48 % of organizations suffered from economic crimes and fraud during the last two years;

- 56 % of all cases of fraud were committed by employees of organizations;

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- 14 % of fraud cases were discovered accidentally.

Bribery and corruption (73 %) is the leader among the economic crimes that have affected organizations over the past two years, the top 5 also include: misappropriation of property (46 %), fraud in procurement (33 %), fraud in personnel management (33 %) and cybercrime (31 %). 31 % of respondents noted that the losses suffered by their organization from the most significant fraud cases amount to more than \$100,000. USA, while 12 % of them reported losses of USD 1 million. USA up to 50 million dollars USA [6].

The consequences of fraud are not only financial. Ukrainian organizations note that their reputation/brand (50 %), relations with business partners (42 %) and interaction with regulators (38 %) were most affected by economic crimes and fraud.

58 % of Ukrainian organizations noted the deterioration of professional ethics and behavior of employees as a result of the most significant cases of fraud.

The survey revealed a significant increase in cases of fraud in Ukrainian organizations committed by employees (from 28 % in 2016 to 56 % in 2018), among which the share of fraud committed by senior management also increased significantly (from 27% in 2016 to 55 % in 2018 year) [10].

Also, Ukrainian respondents noted that 67% of third parties committing fraud are individuals and legal entities close to the organization: agents, suppliers, and clients.

Despite the increase in spending on the fight against economic crimes and fraud, many Ukrainian organizations still do not engage in fraud prevention, but only react or defend

themselves when the fact of fraud has already been committed.

Only 40 % of surveyed organizations in Ukraine conducted a general fraud risk assessment during the last two years. One in five organizations (17 %) did not conduct a risk assessment at all within two years [5].

And the share of organizations in Ukraine that answered that they have an official professional ethics and compliance program decreased from 75 % to 59 %.

South Africa (62 %) and Kenya (57 %) are also among the top three countries with the highest number of economic crimes. Next in the ranking are Canada (56 %), Mexico (51 %), Ukraine (45 %), Great Britain (43 %), New Zealand (42 %) and Australia (40 %) [6; 9].

At the same time, PwC compiled a rating of countries where the number of economic crimes is the lowest in the country. Thus, the top three countries with a low level of fraud include Italy (19 %), Sweden (19 %) and Singapore (18 %). It was followed by India, Indonesia, Switzerland, Finland, Romania, the Netherlands, Turkey, Hong Kong and Japan.

**Conclusions.** It is clear from all of the above that forensics is needed more than ever by every entrepreneur who strives for the efficient operation of his business and for the protection of intellectual property. And from here, just in time conducting a forensic audit as a basis for preventing economic crimes will enable company owners to minimize financial losses and protect their business reputation.

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### ABSTRACT

Considering global absorption of business in financial manipulations and frauds, the use of forensics at enterprises is becoming more relevant. The article examines the concept of "forensics", its methods and purpose in general. Advantages and disadvantages are defined, the need for forensic audit as a basis for preventing economic crimes is analyzed.

**Keywords:** *forensics, forensic audit, fraud, economic security, enterprise, business, audit results, cash flows, financial results, owner, company, losses, efficiency.*