

FRAUD- BETWEEN DELINQUENCY AND CREATIVE ACCOUNTING

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Nowadays, society continually changes, great technological transformations taking place and priorities changing without cease. Setting up new companies and quickly taking them into bankruptcy represents an actual tendency. Consequently, the contemporary economic environment becomes extremely competitive. Thus, economic operators have to face some choices which are not exactly within the law, in order to obtain additional advantages compared to the others, but also to keep their business going. The phenomenon of fraud is frequently encountered and it is present in any field of activity.

Key words: fraud, creative accounting, misappropriation of assets, fraudulent misrepresentation, perpetrators, risk

1. Introduction

Fraud has always been a reason of concern but, recently, its importance considerably increased, as the losses undergone by firms as a result of fraud have significantly grown over the years. Hence, fraud is an actual subject in the economic literature and authors pay special attention to it, being preoccupied to find different modalities in order to counteract its negative effects on companies, investors, employees, customers and other categories including those who use financial information.

According to the ISA 240 International Standard, "The auditor's responsibilities regarding fraud within an audit of financial situations", fraud is a deliberate act perpetrated by one or more persons from the administration, persons responsible for governance, employees or other parts, act which implies the usage of fraudulency so as to obtain unrightful or illegal benefits".

2. When does fraud appear?

According to Donald R. Cressey's study, three elements justify fraud: opportunity, pressure and reasoning. These form "the triangle of fraud". (Tanasă, F., 2013)

Weak internal control systems create opportunity, defrauders being convinced that their action will be successful and will not be discovered. Opportunity is the only element which an enterprise is able to control so that the risk of fraud is diminished.

The defalcator resorts to this act because he feels a financial pressure determined by the difference between his salary and his responsibilities inside the company, the excessive lifestyle or the desire to be at the same level with those resembling him, financially speaking.

The reasoning of this action is the belief that the employer underestimates the perpetrator, the latter considering his deeds justifiable and not penal.

3. Fraud versus Creative Accounting

Creative accounting is a manipulative practice frequently encountered, appeared as a result of the exploitation of the vague and incomplete nature of the accounting regulation, in the case where there are many treatments for the same problem, the chosen solution being that which will lead to the result desired by the direction. (Groșanu, A., 2013)

Creative accounting is an act performed with ingenuity through subtle and sophisticated practices, thing which allows it to be discovered only later.

From the ethical point of view, these techniques are to be blamed, although they do not infringe the accounting regulation, so they cannot be punished or restricted, but they alter the economic reality. On the other hand, when it is used with good faith, creative accounting is a necessary tool in building and rendering a truthful image.

The two practices are used in conditions of financial difficulty and have the intention to cheat, but if fraud is illegal as it infringes the accounting principles and norms as a result of fiscal pressure, creative accounting is correct.

A fraudulent act can be realized through: (Puiu M., Nistor, C., 2013)

- the forgery of accounts or of the supporting documents based on which the financial statements are drawn up;

- the incorrect application of accounting policies;
- the record of fictive transactions;
- the destruction or omission of registration or documents referring to the results of transactions;
- the misappropriation of assets (hiding sales, fraudulent billings and payments).

4. The impact of frauds on companies at international level

Fraud can affect any firm, none is immune and none disposes of anti-fraud control systems which could reduce this risk to zero, they can only considerably decrease the risk of fraud.

According to the Global fraud study from 2014, “Report to the nations. On occupational fraud and abuse”, led by the Association of Certified Fraud Examiners (ACFE), companies lose about 5% of the annual incomes, the average losses being of 145,000 \$.

This study analyzed 1483 cases in more than 100 countries and, taking into account the obtained results, in the table below there are rendered the number of cases per region from all the studied cases and the median losses caused by frauds.

Table no. 1. The geographical location of the organizations affected by fraud.

No. Crt.	Region	Number of cases	Median Loss (\$)
1.	The United States of America	646	100.000
2.	Sub-Saharan Africa	173	120.000
3.	Pacific Asia	129	240.000
4.	Western Europe	98	200.000
5.	Eastern Europe and West-Central Asia	78	383.000
6.	Canada	58	250.000
7.	Latin America	57	200.000
8.	Southern Asia	55	56.000
9.	North-Central Africa	53	248.000

Source: Personal interpretation after the study “Report to the nations. On occupational fraud and abuse”, 2014 Global fraud study, led by the Association of Certified Fraud Examiners (ACFE)

In the United States of America, there were identified most cases of fraud, representing 48% of the analyzed cases. Nevertheless, the biggest median losses were registered in companies from Eastern Europe and West-Central Asia, of 383,000 \$, firms in Canada suffered median losses of 250,000 \$, whereas those from Southern Asia had losses of only 56,000 \$.

Based on the researches, ACEF classified professional fraud into three primary categories: misappropriation of assets, corruption and financial statement fraud.

Analyzing the cases of fraud identified in 2010, 2012 and 2014, researchers concluded that the misappropriation of assets is the most common type of fraud at work, followed by corruption and financial statement fraud. However, financial statement fraud has an important financial impact, with an median loss of 1,000,000 \$, while the misappropriation of assets determines an median loss of 130,000 \$.

The diagrams below show the frequency of the three categories of professional fraud and the median losses determined by each type in 2010, 2012 and 2014.

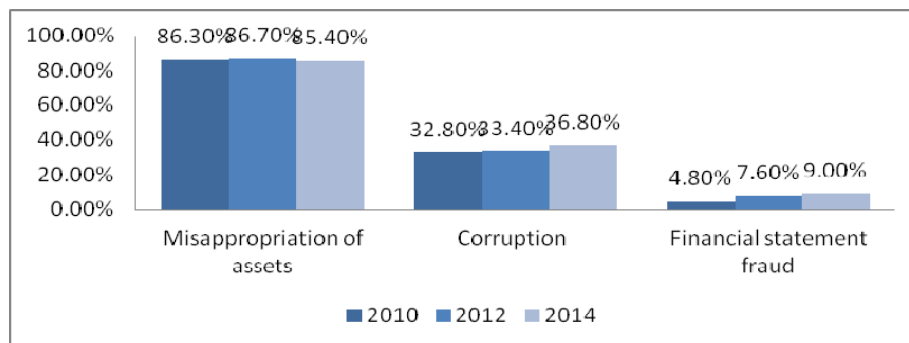


Figure 1. The aspect ratio of the categories of fraud in 2010, 2012, 2014

Source: Personal interpretation after the study “Report to the nations. On occupational fraud and abuse”, 2014 Global fraud study, led by the Association of Certified Fraud Examiners (ACFE)

In these three analyzed years, in about 85-86% of the identified cases of professional fraud, misappropriation of assets was used, with an median loss of 130,000 \$. The proportion of corruption varied between 32 and 36% with median losses of 200,000 \$. On the other hand, the percentage of fraudulent misrepresentation increased from 4,8% in 2010 up to 9% in 2014, while the median loss decreased during the same period, from 4,100,000 \$ to 1,000,000 \$.

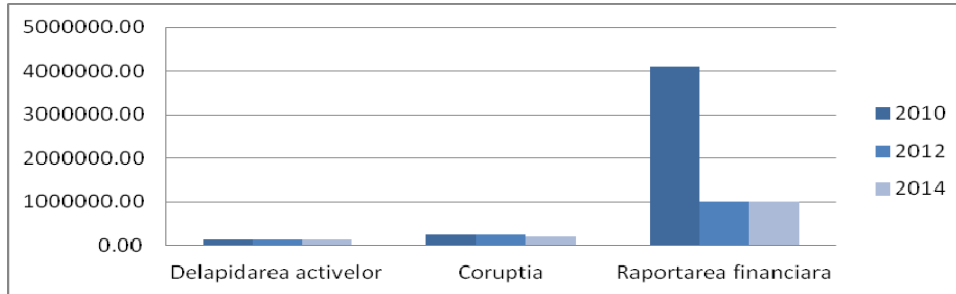


Figure 2. Median losses on categories of fraud in 2010, 2012 and 2014 (\$)

Source: Personal interpretation after the study "Report to the nations. On occupational fraud and abuse", 2014 Global fraud study, led by the Association of Certified Fraud Examiners (ACFE)

According to the same study, there were analyzed the authors of the investigated frauds, from the following points of view: authority, age, sex, level of education or the department they work in. (<http://www.arastl.com/>, 2015)

In the diagram below, there is shown the percentage of authors of fraud, according to their level of authority in 2010, 2012 and 2014.

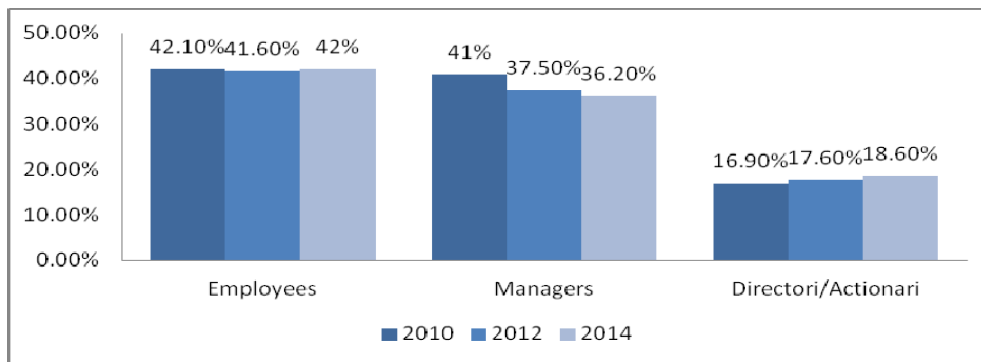


Figure 3. The distribution of the authors of professional frauds in 2010, 2012 and 2014.

Source: Personal interpretation after the study "Report to the nations. On occupational fraud and abuse", 2014 Global fraud study, led by the Association of Certified Fraud Examiners (ACFE)

The distribution of these categories remained consistent during the three years. Most frauds were perpetrated by employees, in a percentage of 42%, whereas 36% were committed by managers and only 9% by directors or shareholders.

In spite of the fact that the frauds determined by directors or shareholders represent the smallest percentage of the cases analyzed within this study, they led to the greatest median losses, of 500,000 \$, while the frauds committed by employees caused losses of 75,000 \$, and those done by managers gave rise to median losses of 130,000 \$.

As far as the age of those who commit frauds is concerned, 56% of the analyzed cases were perpetrated by persons between 31 and 45 years old, but the most important median losses were caused by authors whose age surpass 50 years, with sums between 200,000 \$ and 450,000 \$. (<http://www.arastl.com/>, 2015)

As for the authors' sex, studies have shown that most fraud perpetrators are men – 66,8% - compared to 32,2 %, the percentage of frauds committed by women.

5. Notorious frauds at international level

During the last years, the whole world has been shaken by huge financial scandals, as opportunities are much more numerous than before. (<http://www.manager.ro/>, 2015)

Now we will present some of the most known international frauds.

Enron is a company which deals with goods, energy and services. In 2001, shareholders lost 74 billion dollars, thousands of employees and investors lost their savings for retirement and a lot of them remained unemployed.

The scandal started as a result of some accounting analysis performed by experts, when it was discovered the fact that this company increased its incomes, omitted enormous debts, thus having huge financial results. Enron artificially increased the reported profits, immediately registering even the incomes related to contracts which were to be carried on during ten years. It transferred its debts between partner entities which in fact belonged to Enron and used these entities so as to manipulate the accounts at the end of each trimester and also used derivatives and other complex financial transactions with the same purpose.

The organization also practiced a quite aggressive strategy in order to avoid paying taxes. For the period 1996-2000, the group had to pay taxes of 1,79 billion \$, for which it obtained a total discount of 381 million \$. The only year when Enron entirely paid contributions (of 17 million \$) was 1997. (<http://www.manager.ro/>, 2015)

This scandal ended with the imprisonment of many persons, Jeff Skilling among them, the executive director and the architect of the business model, who was sentenced to 24 years, and Enron Company went bankrupt.

Worldcom is a firm in the domain of telecommunications, which is now called MCI Inc.

The fraud perpetrated by this company was discovered after a financial audit which revealed a fraud of almost 4 billion dollars. This scandal determined prejudices of 11 billion dollars.

Moreover, this firm also forged its financial results but this scandal shook the stock exchanges from all over the world, devaluing the dollar and threatening the economies dependent on the American currency. (<http://www.manager.ro/>, 2015)

Parmalat was the biggest Italian alimentary company and the forth as dimension in Europe, controlling 50% of the Italian market of milk and milk derivate products.

In 1997, Parmalat began to make international purchases, financed through loans. After a short time, it became the third firm as size regarding the production of cookies in the United States of America. Starting with 2001, the company registered losses and operated on the market of derivatives and speculative enterprises in order to recover its money.

The agro-alimentary company was only a cover for a speculative financial scheme so as to attract investors' money, money which was redirected to offshore companies.

The crisis of this firm began in 2003 when it was in the impossibility to pay dated bonds of 150 million €.

Parmalat's crisis broke out on the the 8th of December 2003, when the company was unable to pay dated bonds of 150 million €. Thus, it was discovered that liquidities/liquid funds of about 4 billion € and value titles of 8 billion € vanished.

The company went bankrupt and its insolvency represented 1,5% of Italy's GNP (gross national product). (<http://www.manager.ro/>, 2015)

6. Conclusions

Fraud is a worldwide problem for any enterprise.

Many companies and persons will face financial difficulties, situation which will lead to pressure, opportunities and reasoning that determine the phenomenon of fraud.

Fraud and creative accounting have to be differentiated. Fraud is an infringement of the law, while creative accounting is correct, taking advantage of the possibility to choose between different accounting solutions offered by legal accounting norms.

Organizations affected by fraud risk to lose about 5% of their incomes.

According to studies, the most frequent form of fraud is the misappropriation of assets, whereas financial misrepresentation is the one which determines the biggest average losses.

As far as the fraud perpetrators are concerned, most are men, aged between 31 and 45 years, employees or managers of companies.

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