RESEARCH PAPER | Commerce | Volume : 6 | Issue : 6 | June 2016 | ISSN - 2249-555X | IF : 3.919 | IC Value : 74.50

Measures To Eradicate Financial Fraud in Multinational Companies

KEYWORDS: Financial Fraud, Fraud Detection.

Mallikarjuna Prasad Munduru

Acharya Nagarjuna University, India

ABSTRACT *The purpose of the study is to identify the financial fraud in Multinational companies and steps needed to eradicate fraud and reduce financial loss occurred due to alteration of financial statement data and fraudulent audit practices.*

Introduction:
A financial crime is any non-violent offense that is carried by or against an individual or corporation and results in a financial loss. When a financial organization is involved, the crime is referred to as a financial industry crime.

Financial Reporting Fraud:
Financial reporting fraud involves the alteration of financial statements, usually by a firm's management, to achieve a fraudulent result. These altered financial data is the tools then used by a company's manager's to obtain some reward. The reward may consist of hike in compensation, such as receiving a bonus that otherwise would not be paid without using altered, incorrect financial data to overstate management's operating performance.

Compensation may also be indirect (for example, Organizations may use fraudulent financial statements to raise additional capital that, in turn, allows a firm to expand and, apparently, increase the value of shares held by management).

An example of India's biggest accounting Fraud, Satyam Computer services accounting fraud.

It is about fraudulent auditing practices and corporate governance allegedly in conspiracy with auditors and chartered accountants. The company misrepresented its accounts both to its board, regulators, investors and stock exchanges all other stakeholders.

The below figures show the total amount of irregularities, Fictitious revenue and interest was Inflated.

Total amount of financial irregularities in Satyam Computer Service Scam	Number of Fictitious invoices discovered	Fictitious revenue reported between April 2002 and September 2008	Fictitious interest income recorded from 2002 to 2008
Rs.7,855 cr	7,500	Rs.5,352.8 cr	Rs.899.8 cr

Accounting fraud, a market exploitation
It is a fraud, which misled the market and stakeholders by falsifying about the company's financial health. Even basic facts such as income, operating profits, interest liabilities and cash balances were grossly exaggerated to show the company in good health.

Management are the primary culprits, despite the fact, it is almost impossible to misrepresent such facts without the conspiracy of the auditors and some executive board members. Independent directors, were kept in the dark about the actual books of accounts. The role of external auditors, who were tasked to determine that no financial bungling is undertaken to carry out promoters' interest, have also been brought to question. Employee fraud is a significant problem faced by all organizations , locations and industries. While we would all like to trust our employees are loyal and working for the betterment of the organization , there are many reasons why your employees may commit fraud and different ways in which they might do it.

Categories of Fraud
Fraud can be classified into three categories: financial statement fraud, asset misappropriation, corruption .

Financial statement fraud comprised less than five to ten percent of cases but caused the most median loss. These are schemes that involve intentionally misrepresent information in the company's financial reports. This can be in the form of inflated assets,fictitious revenues.

Asset misappropriation, although least costly, made up of all fraud cases studied. These are plans in which an employee exploits its organization's resources. Examples of asset misappropriation is stealing cash before or after the transaction has been recorded, making a fictitious expense reimbursement claim and stealing non-cash assets of the organization.

Corruption schemes happen when employees use their influence in business transactions for their own benefit while Infringing their duty to the employer. Examples of corruption are extortion, bribery and conflict of interest.

Preventing Fraud
It is utmost important to an organization to have a fraud prevention plan ready. The fraud cases studies explains that the fraudulent activities studied lasted an average of one to two years before being detected. Assume the nature of loss your company could suffer with an employee committing fraud for a year. Fortunately, there are ways you can reduce fraud occurrences by implementing different procedures and controls.

1. Understand your Employees:
Monitoring and listening to employees can benefit you identify potential fraud risk.Fraud perpetrators often display behavioral idiosyncrasy that can indicate the intention to commit fraud.

Volume : 6 | Issue : 6 | June 2016 | ISSN - 2249-555X | IF : 3.919 | IC Value : 74.50

It is important for Employers to be involved with their employees and take some time to get to know them. Often, an attitude change can clue you in to a risk. This can also disclose internal issues that need to be addressed. For example, if an employee feels that he earns less than his coworker, this could lead him or her to commit fraud. Any attitude change should cause you to pay careful attention to that employee. This may not only reduce a loss from fraud, but can make the organization a better, more dynamic place with joyous employees. Listening to employees may also reveal other clues.

2. Make Employees Aware
Awareness affects all employees. Everyone within the organization should be aware of the fraud risk procedures including types of fraud and the consequences associated with them. Those who are planning to commit fraud will know that management is observing and will hopefully bedeterred by this. Honest employees who are not tempted to commit fraud will also be made aware of potential indicators of fraud. These employees are assets in the fight against fraud.

According to the ACFE Report, most occupational fraud (over 40%) is detected because of a tip.

While most source of tips come from employees of the organization, other important sources of tips are customers, vendors, competitors and companions of the fraudster. Since many employees are hesitant to report incidents to their employers, consider setting up an undisclosed reporting system. Employees can report fraudulent activity through a website keeping their identity safe or by using a tip hotline.

3. Implement Internal procedures
Internal procedures are the plans and programs implemented to safeguard your company's assets, establish the integrity of its accounting records, and detect fraud. Dividing of duties is an important component of internal process that can reduce the risk of fraud from occurring. For example, a Grocery store has one cashier, one sales representative, and one manager. The cash and check register receipts should be verified by one employee while another prepares the deposit slip and the third brings the deposit to the bank. This can give transparency in daily cash transactions reveal any discrepancies in the collections.

Documentation is another internal procedure that can help reduce fraud. Consider the example above; if sales receipts and preparation of the bank deposit are recorded in the books, the business owner can look at the records on a regular basis to verify that the cash receipts were deposited into the bank. In addition, make sure all checks, invoices are numbered consecutively.Internal procedure programs should be monitored and revised on a consistent basis to ensure they are effective and current with latest technological and other advances. If you do not have an internal procedures or fraud prevention program effective, then you should hire a third party professional with experience in this area. A certified professional will analyze the company's procedures and policies, recommend applicable programs and assist with implementation.

4. Supervise outstanding Vacations
You might be amazed by the employees who haven't missed a day of work in years. While these may sound like credible employees, it could be a sign that these employees have something to hide and are concerned that someone will reveal their fraud if they were out of the office for a period of time. It is also a good idea to rotate employees to various departments within a company. This may also reveal fraudulent activity as it allows other employee to scrutinize the activities of the first.

5. Hire Professional
Certified Fraud Examiners (CFE), CPAs who are Certified in Financial Forensics can help you in establishing antifraud policies and procedures. These experts can provide a wide range of services from complete internal procedures and forensic analysis to general consultations.

6. Maintain Corporate Culture
Adopting crystal clear organizational structure, written policies and fair employment practices.

A transparent organization policies can also provide a great fraud prevention system as it gives employees an opportunity to communication with management. Management and top level executives be a role models and should lead by example and hold every employee responsible for their actions, regardless of position.A great work environment can prevent employee fraud.

Identify Fraud
It is significant to document your fraud detection strategies including the individuals or teams responsible for each task. Once the fraud detection plan has been finalized, all employees should be made aware of the plan and how it will be applied. In addition to prevention strategies, you should also have detection methods in place and make them accessible to the employees.

According to Managing the Business Risk of Fraud: A Practical Guide, published by Association of Certified Fraud Examiners, the visibility of these controls acts as one of the best deterrents to fraudulent behavior. It is vital to continuously invigilate and update your fraud detection strategies to ensure they are effective. Disclosure plans usually occur during the regularly scheduled business day. These plans take external information into consideration to hook up with internal data. The results of your fraud detection plans should enhance your prevention controls.

Communicating this to employees is a prevention method in itself. Knowing the company is watching and will take punitory action can inhibit employees' plans to commit fraud.

Conclusion
Creating awareness to employees about the Company policies is one of the best ways to deter fraudulent behavior. Going through with the procedure and enforcing the noted steps and consequences when someone is caught is crucial to preventing fraud. It can happen in any company across various industries and geographic locations. Employee fraud can result in monetary loss, legal expenses, and damage reputations that can ultimately lead to the downfall of an organization. Having the proper guidelines in place can seriously reduce fraudulent activities from occurring or cut losses if a fraud already occurred. It is good to prevent fraud before it gets committed.