

THE IMPACT OF FINANCIAL FRAUD ON THE ECONOMIC SECURITY OF CONSTRUCTION ENTERPRISES

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Abstract. The article is devoted to the results of a survey of owners of construction enterprises on the impact of financial fraud on the economic security of such enterprises. The purpose of the article is to establish the impact of financial fraud on the economic security of construction enterprises based on a survey of owners of such enterprises. In the process of preparing the article, the following methods were used: the method of questionnaires for the receipt; graphical method - to display the results of the survey; methods of analysis and synthesis; method of generalization of research results. The results showed that the majority of respondents are owners of limited liability companies for which the issues of financial fraud are quite relevant and important. The main way to detect financial fraud in the surveyed companies is an internal audit, which allows you to leave all issues closed from information leakage. Most cases of financial fraud among hired top managers and middle managers. Cases of financial fraud are most often reported to employees by employees, but also by buyers, sellers and competitors. It has also been found that in most cases, whistleblowers report cases of financial fraud directly to business owners rather than management. However, there are also cases of informing law enforcement agencies and the public through the media. According to the results of the survey, the owners of construction enterprises should: pay great attention to working with employees to inform about suspected financial fraud or suspicion of it; conduct an internal audit to prevent financial fraud among employees; create an economic security service to investigate cases of financial fraud.

Keywords: financial fraud, business owners, economic security of enterprises, construction enterprises.

JEL Classification: L53, L70, L74, M42, M48

Formulas: 0; **fig.:** 5; **tabl.:** 0; **bibl.:** 5

Introduction. In the current conditions of economic development of Ukraine, cases of financial fraud in the civil service and at various enterprises, including construction, are not uncommon. The identified cases have a negative impact on the reputation of the company and on all participants in construction relations. In addition, financial fraud in the construction industry has a serious impact on the development of the economy as a whole, as well as on the economic security of construction companies.

Literature review. The issues of ensuring the economic security of enterprises, including the construction industry, have been studied by foreign and domestic scientists, among whom are: V. Alkema, V. Andrienko [1], A. Balanda, O. Bielenkova [2], Z. Zhivko, I. Mihus [3], O. Molodid [4], O. Lyashenko, L. Shemayeva and others.

Despite this, the impact of financial fraud on the economic security of construction companies has not been studied in sufficient depth.

Aims. The purpose of the article is to establish the impact of financial fraud on the economic security of construction companies based on a survey of owners of such enterprises.

Methods. In the process of preparing the article, the following methods were used: the method of questionnaires for the receipt; graphical method - to display the results of the survey; methods of analysis and synthesis; method of generalization of research results.

Results. In the period from January to September 2020, we conducted a survey of owners of construction companies of various forms of ownership (fig. 1).

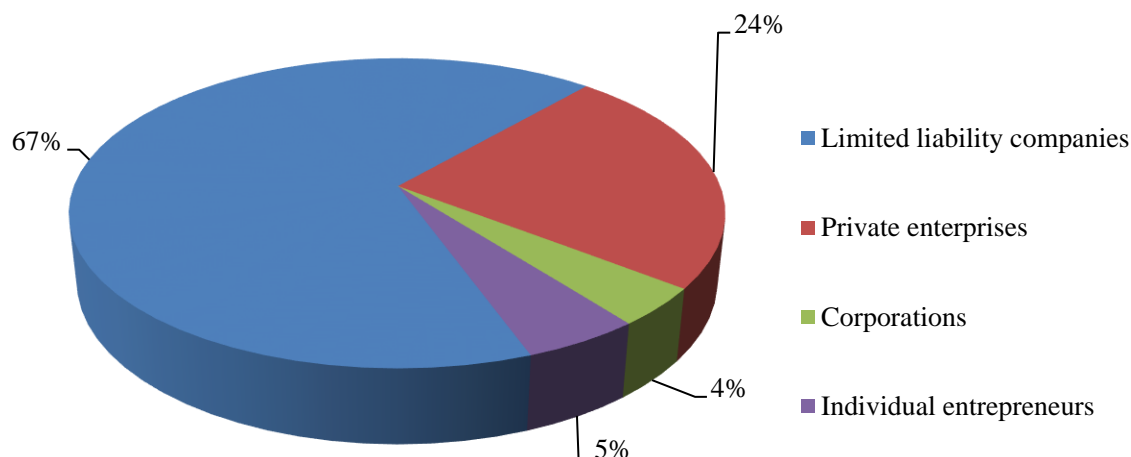


Figure 1. Structure of construction enterprises whose representatives participated in the survey, %

Source: compiled by the author on the basis of a survey of construction enterprises owners

The study analyzed ways to detect different types of financial fraud. Detection is an important concept in fraud investigation because the speed with which fraud is detected – as well as the way it is detected – can have a significant impact on the size of the fraud. It is also key to fraud prevention because organizations can take steps to improve how they detect fraud, which in turn increases the staff's perception that fraud will be detected and might help deter future misconduct. Our data revealed several notable trends relating to how fraud is initially detected, when it is detected, and who detects it, all of which can help fraud examiners improve the effectiveness of fraud detection and prevention at their organizations.

The foundation to effective detection of occupational fraud is knowing the most common methods by which fraud is discovered. Despite the increasingly sophisticated fraud detection techniques available to organizations, tips were the most common way occupational frauds were discovered in our study by a wide margin, as they have been in every one of our previous reports.

Typically, there are the following sources of information to detect financial fraud (figure 2).

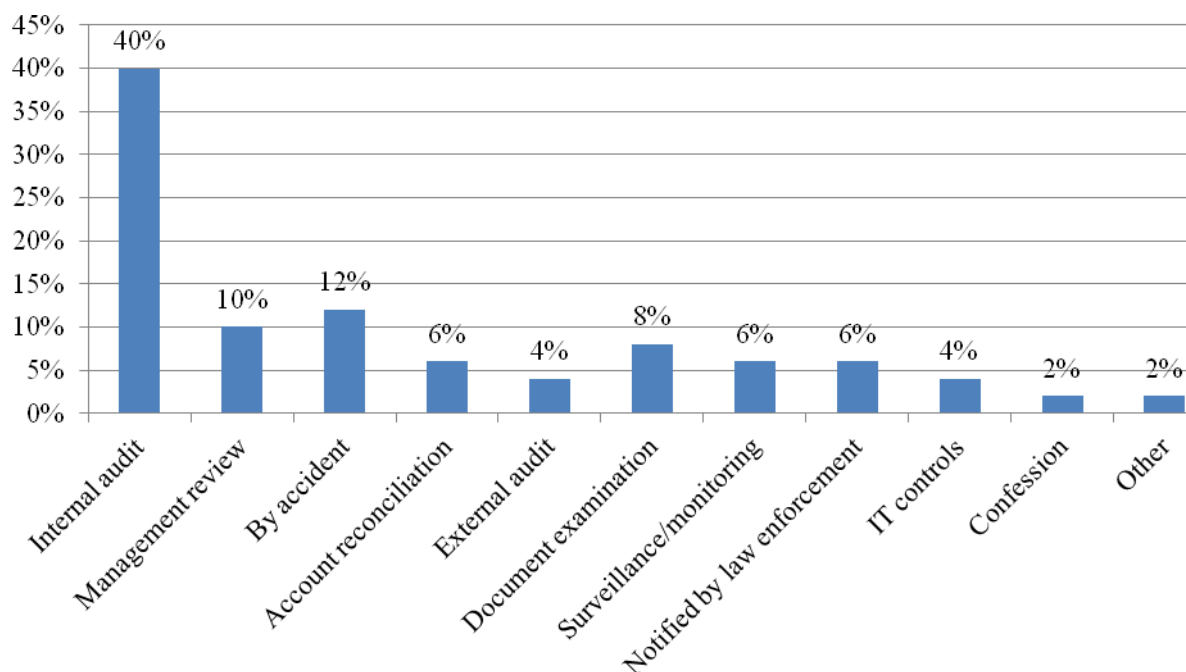


Figure 2. The main sources of information to detect financial fraud in construction enterprises

Source: compiled by the author on the basis of a survey of construction enterprises owners

As shown in Figure 2, more than 40% of cases in our study were uncovered by tips, which is almost three times as many cases as the next-most-common detection method. Therefore, processes to cultivate and thoroughly evaluate tips should be a priority for fraud examiners.

The following answers were received to questions about those who committed or attempted to commit financial fraud (figure 3).

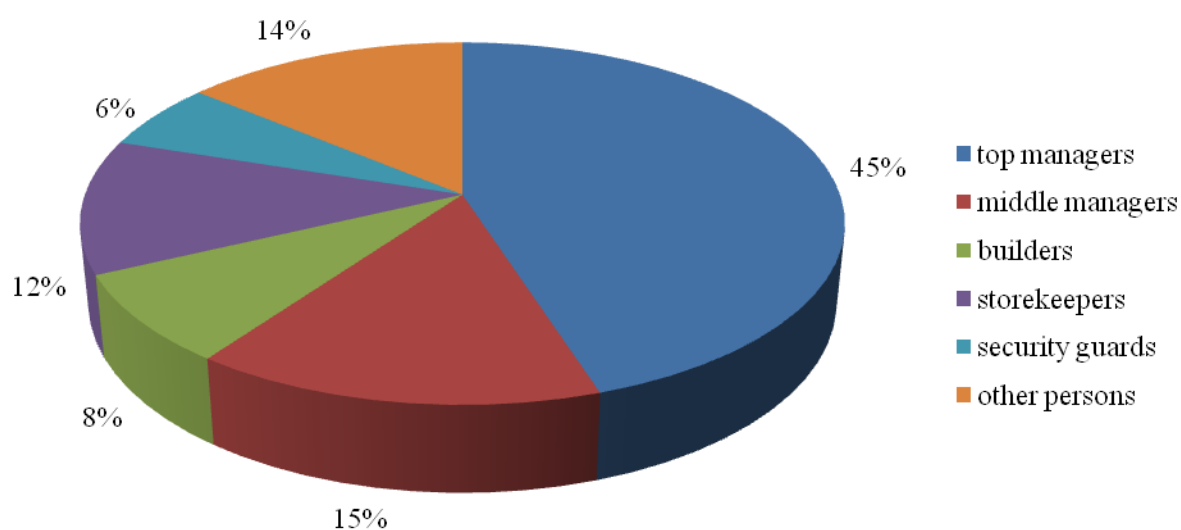


Figure 3. The main persons who committed or attempted to commit financial fraud in construction enterprises

Source: compiled by the author on the basis of a survey of construction enterprises owners

Half of all tips came from employees, while a substantial number of tips came from outside parties, including customers, vendors, and competitors. These findings demonstrate that anti-fraud education and the communication of designated reporting mechanisms should target not only internal staff, but external parties as well (fig. 4).

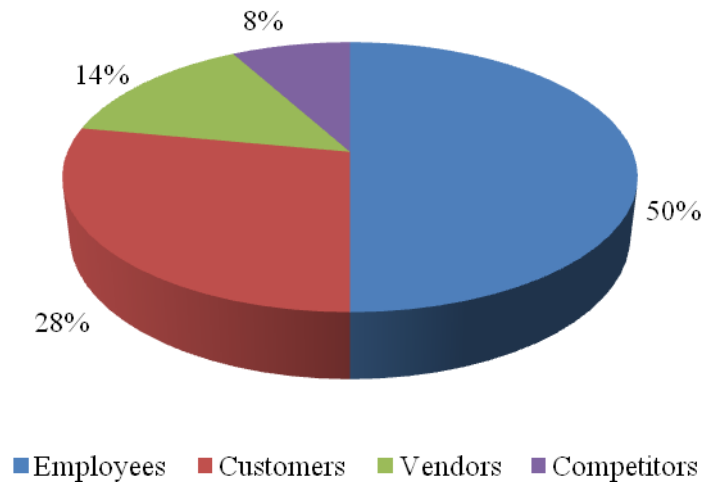


Figure 4. Internal and external entities that report financial fraud in construction enterprises

Source: compiled by the author on the basis of a survey of construction enterprises owners

The question was also asked about who exactly received reports of suspected financial fraud at construction companies (figure 5).

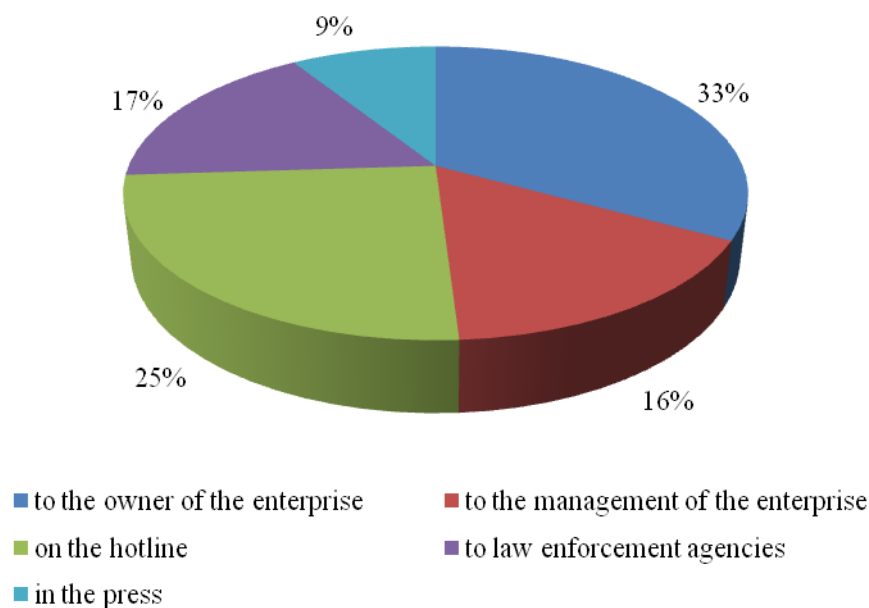


Figure 5. Information channels that were used to transmit data on financial fraudsters in construction enterprises

Source: compiled by the author on the basis of a survey of construction enterprises owners

In 33% of cases where a tip was made, the whistleblowers did not use a formal reporting mechanism. Instead, they reported their suspicions directly to supervisors, investigators, or other interested persons. Identifying how often whistleblowers tend to report fraud to various parties can help organizations answer several important questions.

Discussion. How likely are whistleblowers to report outside of the organization? How should complaints lodged outside a formal reporting mechanism be recorded and escalated? Whistleblowers are most likely to report fraud to their direct supervisors, yet many will go to other parties, such as fraud investigation teams, human resources, or their coworkers. Therefore, it is important to provide all staff with guidance on how fraud allegations should be responded to and escalated.

It is also noteworthy that 17% of reports were made directly to law enforcement or regulators, instead of internally, which is something most organizations would hope to avoid. This illustrates the importance of training staff on how and why they should report fraud internally.

Conclusion. The article is devoted to the results of a survey of owners of construction enterprises on the impact of financial fraud on the economic security of such enterprises.

The results showed that the majority of respondents are owners of limited liability companies for which the issues of financial fraud are quite relevant and important. The main way to detect financial fraud in the surveyed companies is an internal audit, which allows you to leave all issues closed from information leakage. Most cases of financial fraud among hired top managers and middle managers. Cases of financial fraud are most often reported to employees by employees, but also by buyers, sellers and competitors. It has also been found that in most cases, whistleblowers report cases of financial fraud directly to business owners rather than management. However, there are also cases of informing law enforcement agencies and the public through the media. According to the results of the survey, the owners of construction enterprises should: pay great attention to working with employees to inform about suspected financial fraud or suspicion of it; conduct an internal audit to prevent financial fraud among employees; create an economic security service to investigate cases of financial fraud.

According to the results of the survey, the owners of construction companies should:

- pay great attention to working with employees to inform about suspected financial fraud or suspicion of it;
- conduct an internal audit to prevent financial fraud among employees;
- create an economic security service to investigate cases of financial fraud.

Author contributions. The authors contributed equally.

Disclosure statement. The authors do not have any conflict of interest.

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