

# PECULIARITIES OF INVESTIGATING FRAUD IN CORPORATIONS

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**Abstract.** The article is devoted to an in-depth study of the role of various methods in the investigation of fraud in corporations. The purpose of the article is to systematize types of commercial fraud and methods of its detection. The main research methods used in the article are general scientific methods of analysis and synthesis, as well as comparative analysis, which became the basis for obtaining research results. Based on the results of the research, the following conclusions can be drawn. The article summarizes the main types of fraud that can be investigated in corporations. The main sources of information used to detect fraud are systematized, namely: Structured, Unstructured, Semi-structured. After comparing the types of fraud and the types of data used to detect fraud, a matrix "Relationship between types of fraud and types of data used to detect fraud" was developed to help choose the right sources of information for detecting criminal activity. A study of the role of internal teams in the investigation of fraud was carried out according to such impact criteria as: The frequency of investigation of various types of fraud; The amount of time teams spend investigating fraud; Average amount of time required to conduct a fraud investigation; Average number of days it takes to close a fraud case.

**Keywords:** corporation, fraud, information, fraud investigation.

**JEL Classification:** F23; F52; G20, G30

**Formulas:** 0; **fig.:** 6; **tabl.:** 1; **bibl.:** 8

**Introduction.** Fraud in commercial transactions is an urgent problem not only for the corporate sector, but also for governments, financial institutions and ordinary consumers. Every year, corporations lose millions of dollars as a result of various types of fraud. Modern methods of detecting and combating fraud are designed to minimize its negative impact. Traditional detection methods include the extensive use of auditing, where a trained person manually observes statements or transactions in an attempt to detect fraud.

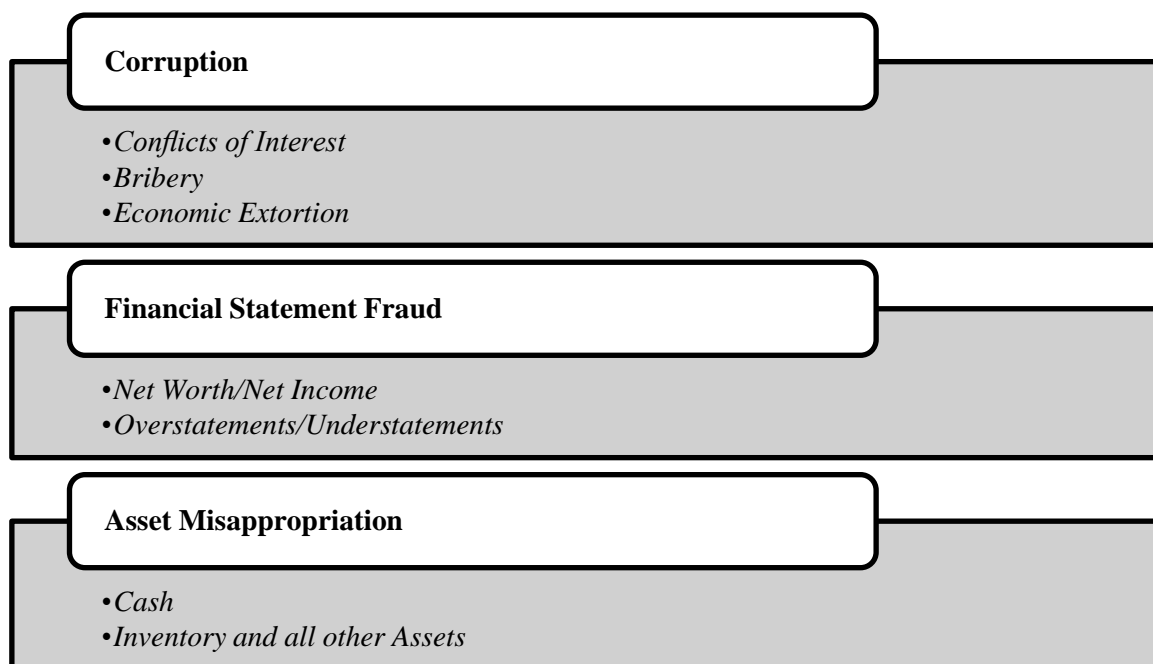
**Literature review.** The issue of studying the problems of financial fraud is devoted to the work of many scientists. Thus, in the article "Corporate Fraud Prevention and Detection: Revisiting the Literature" (Mangala D. and Kumari P., 2015), an in-depth study of the literature related to corporate fraud was carried out in order to understand "why" fraud occurs and "how" fight with him. They analyzed studies published between 1984 and 2014, which demonstrate the prerequisites for the occurrence of fraud, as well as methods for detecting it and preventing its negative impact [1].

The article "Intelligent Financial Fraud Detection Practices: An Investigation" presents a comprehensive study of financial fraud detection practices using data mining techniques, with a special emphasis on computational analytics (West, J., Bhattacharya, M., Islam, R., 2015) [2].

The article "Corporate investigations" explains the requirements for conducting a corporate investigation and indicates that corporations must have effective corporate governance and compliance structures that are flexible and innovative to deal with new and emerging fraud (Coburn, N.F., 2006) [3].

The article "Auditors' Perceptions of the Effectiveness of Fraud Prevention and Detection Methods" aims to study the effectiveness of fraud detection and prevention methods used by the corporate sector (Mangala, D., & Kumari, P., 2017) [4]. The obtained results show that corporate governance is the most effective tool for combating fraud. The use of information technology, timely auditing, regular inspections and corporate policies and procedures also play an important role in deterring fraud in an organization.

The most complete classification of types of fraud is presented in the materials of the Association of Certified Fraud Examiners (Figure 1).



**Figure 1. Occupational fraud and abuse classification system**

Source: systematized by the author on the basis of Report to the Nation [5]

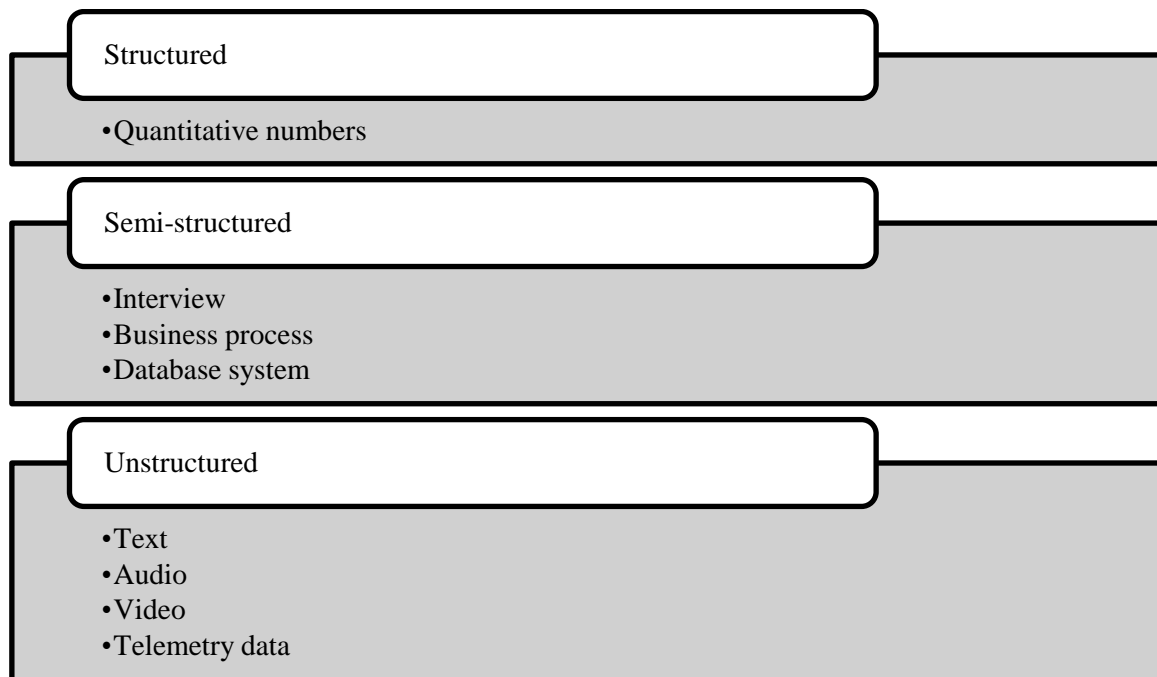
Unfortunately, most studies do not pay enough attention to the information support of fraud detection based on its individual types.

**Aims.** The purpose of the article is to systematize types of commercial fraud and methods of its detection.

**Methods.** The main research methods used in the article are general scientific methods of analysis and synthesis, as well as comparative analysis, which became the basis for obtaining research results.

**Results.** Based on the results of the research, we systematized the main sources of information used to detect fraud (Figure 2).

Analogous to the evolution of data types, methods for fraud detection experienced a rapid proliferation in the past decades. Especially in the post-pandemic era, due to the intensified motives, insidious forms, and intelligent schemes of financial fraud, it is becoming more difficult to identify fraudulent behaviors accurately and efficiently. Thus, recently, researchers tend to incorporate and exploit information from as many aspects as possible for comprehensive monitoring [6].



**Figure 2. Types and examples of data used for fraud detection**

Source: systematized by the author on the basis [6]

After comparing types of fraud and types of data used for fraud detection, a matrix was developed (table 1).

**Table 1. Relationship between types of fraud and types of data used for fraud detection**

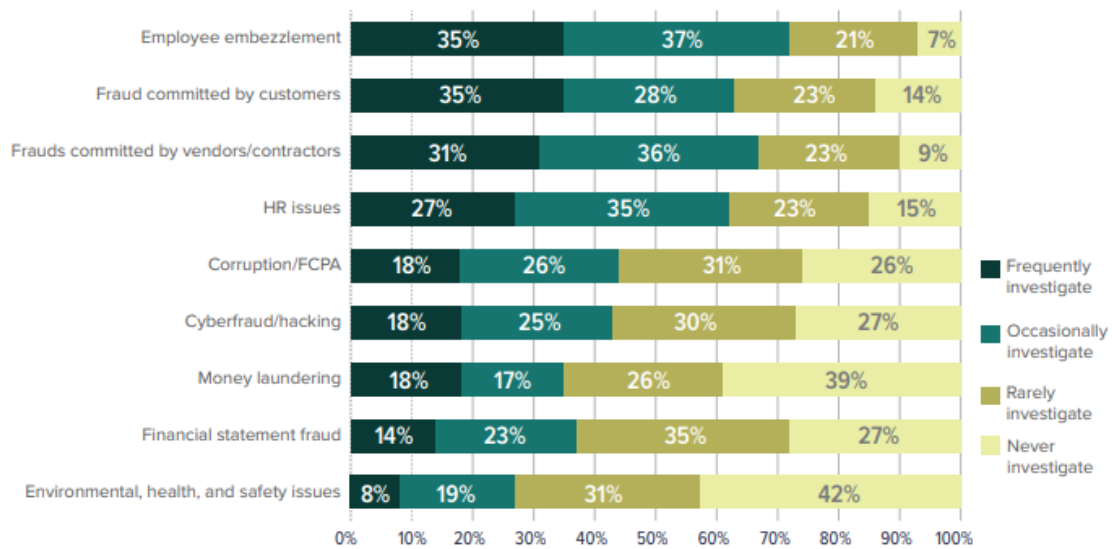
Fraud type	Data type
<b>Corruption</b>	
<i>Conflicts of Interest</i>	Semi-structured
	Unstructured
<i>Bribery</i>	Semi-structured
	Unstructured
<i>Economic Extortion</i>	Structured
	Semi-structured
<b>Financial Statement Fraud</b>	
<i>Net Worth/Net Income</i>	Structured
	Semi-structured
<i>Overstatements/Understatements</i>	Structured
	Semi-structured
<b>Asset Misappropriation</b>	
<i>Cash</i>	Structured
<i>Inventory and all other Assets</i>	Structured

Source: systematized by the author on the basis [5-6]

A study of the activities of internal control departments, which conduct fraud investigations in corporations, was conducted.

The most common type of case investigated by the in-house investigation teams is employee embezzlement; 72% of teams frequently or occasionally investigate this type of fraud, and only 7% never do. Other types of cases that are commonly investigated include frauds committed by the organizations' customers, vendors, and contractors. Interestingly, 62% of the teams in our study also frequently or occasionally

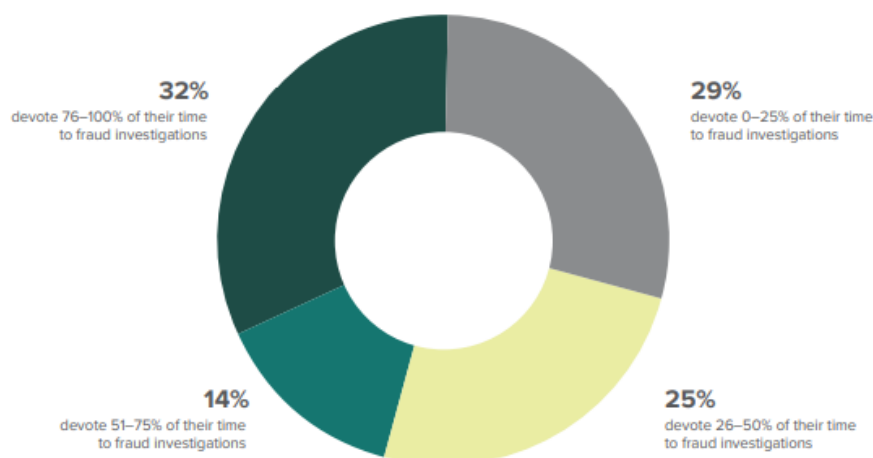
investigate HR issues, in addition to fraud-related cases. While cybersecurity issues are an increasing concern for many organizations, 27% of the teams in our study never investigate these cases, and 30% investigate them only rarely (Fig. 3).



**Figure 3. The frequency of investigation of various types of fraud**

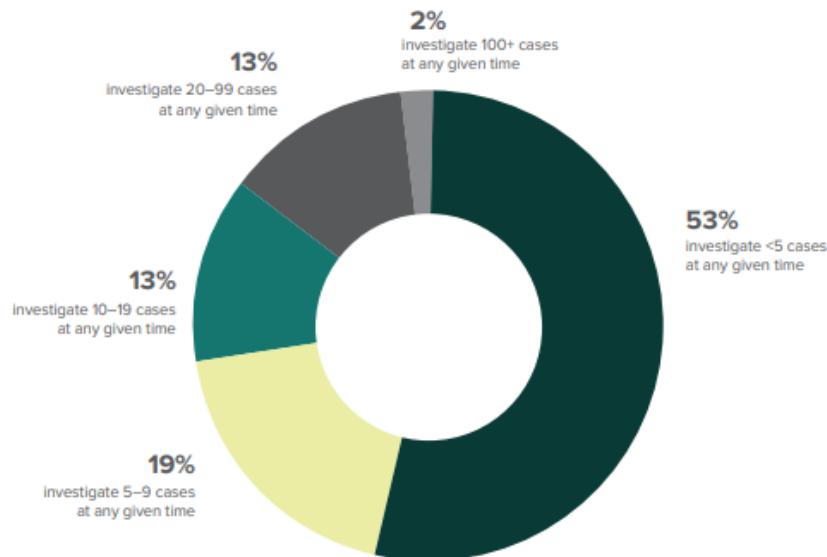
Recognizing that many teams in our study investigate non-fraud-related issues and likely perform some other functions, such as internal audit or fraud prevention activities, we asked respondents to indicate how much of their overall work time is devoted solely to investigating fraud.

From the responses, 46% of the teams are primarily focused on fraud investigations, with 32% spending more than three-quarters of their time on these engagements, and another 14% spending between half and three-quarters of their time investigating fraud. On the other end of the spectrum, 29% of the teams focus much more on other areas, spending one-quarter or less of their time devoted to fraud investigations (Fig. 4).



**Figure 4. The amount of time teams spend investigating fraud**

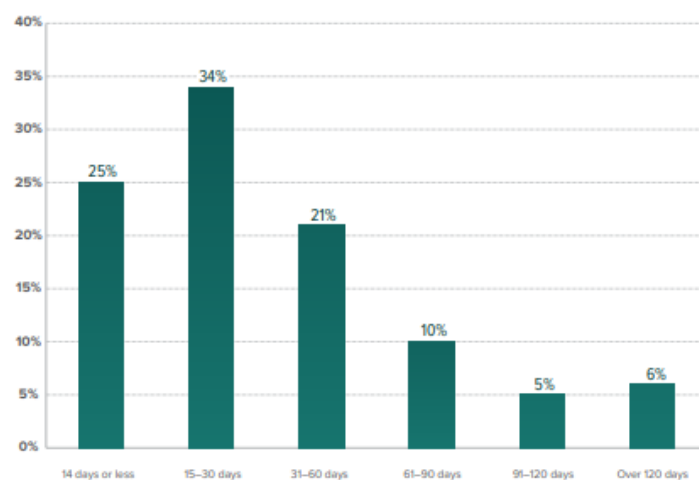
Many organizations handle more than one fraud allegation at a time. Depending on the size and industry of the entity, there might be numerous fraud cases under investigation each day. We asked survey respondents about the average number of fraud cases each investigator on their team handles at any given time. More than half (53%) noted that each investigator has an average caseload of fewer than five cases. Only 28% of investigators typically handle ten or more cases at a time (Fig. 5).



**Figure 5. Average amount of time required to conduct a fraud investigation**

Many factors can affect how long it takes to complete a fraud investigation, including, but not limited to, the complexity of the case, how difficult it is to obtain evidence, the resources available, whether travel is involved, and how many other cases that investigator is handling at the same time.

However, benchmarking the typical time to close a case can be helpful in assessing the efficiency of a fraud investigation team's activities. Figure 6 shows that most teams (59%) typically close their fraud investigations within one month, with another 21% closing cases in one to two months on average.



**Figure 6. Average number of days it takes to close a fraud case**

Even in organizations with an in-house fraud investigation team, it might be beneficial to outsource a portion of the company's fraud investigations to outside parties. This might be due to internal resource limitations, a need for specialized knowledge or skill sets, or geographical or language barriers. Of the internal fraud investigation teams in our study, 63% do not outsource any of their cases, while 29% outsource one-quarter or less. Only 2% of the teams outsourced more than half of their investigations to outside parties.

Management and those charged with governance often monitor the results of the organization's fraud investigations as one metric when assessing the company's overall fraud risks and the effectiveness of its anti-fraud initiatives. In evaluating these results, it can be helpful to know the case outcomes that other organizations typically experience as a benchmark.

The most of the in-house teams in our study (55%) are able to substantiate more than half of their fraud investigations, with almost one-third substantiating 76% or more. Disciplinary action is slightly less likely, indicating that not all substantiated cases end with the perpetrator being disciplined. In the findings, 43% of investigation teams see disciplinary action as a result in more than half of their cases, while 7% indicated that their cases never result in disciplinary action.

Similarly, criminal prosecutions do not necessarily follow substantiated cases or internal discipline; the percentage of cases that result in referrals for prosecution is notably smaller than the other two categories. Most organizations (71%) see one-quarter or fewer of their cases referred to law enforcement, and 13% do not have any of their cases result in a criminal referral.

**Conclusions.** Based on the results of the research, the following conclusions can be drawn. The article summarizes the main types of fraud that can be investigated in corporations. The main sources of information used to detect fraud are systematized, namely: Structured, Unstructured, Semi-structured. After comparing the types of fraud and the types of data used to detect fraud, a matrix "Relationship between types of fraud and types of data used to detect fraud" was developed to help choose the right sources of information for detecting criminal activity. A study of the role of internal teams in the investigation of fraud was carried out according to such impact criteria as: The frequency of investigation of various types of fraud; The amount of time teams spend investigating fraud; Average amount of time required to conduct a fraud investigation; Average number of days it takes to close a fraud case.

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