UDC 343.352:336.7:657.6 DOI: https://doi.org/10.64076/iedc250821.02

Fraud prevention

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Abstract. *Fraud in financial management and business has been known for a long time and is almost an obligatory companion of the economy and business all over the world. Our country is no exception to this "general rule" and a variety of models in this direction are also found. Financial fraud occurs in the financial statements of companies, in public procurement, in the calculation and payment of various taxes and social security contributions, in audits conducted, in the absorption of funds from European programs and funds, etc. The fight and counteraction to them is carried out with a variety of control mechanisms regarding them, but then only those that have already been committed are found, most often appropriate sanctions are imposed. The aim everywhere is to take effective action to prevent fraud and abuse, or to successfully implement preventive control at all levels to prevent or maximally prevent such actions that harm both individual organizations and public funds. The paper examines the different types of fraud, the relevant control bodies and possible actions to prevent and prevent them.*
Keywords: *financial fraud, abuse, control, prevention.*

Fraud is most often associated with the performance of purposeful human actions with intent, such as lying, theft, robbery, plagiarism, conflict of interest, corruption, embezzlement, bribery, money laundering, extortion and others, for the purpose of personal gain and/or causing losses, harm and/or damage to another.

In the legal framework - the Criminal Code, the definition of fraud is: "whoever, with the aim of obtaining for himself or another a property benefit, arouses or maintains a delusion in someone and thereby causes him or another property damage", is punished for fraud by imprisonment... and "whoever, with the same aim, uses the delusion, inexperience or ignorance of someone and thereby causes him or another property damage", is punished by imprisonment.

It is generally accepted that when we talk **about fraud**, we most often associate it with financial fraud, in which we most often have concealment, falsification, distortion, selective and inaccurate disclosure, saving and non-disclosure of certain economic information, or as an action or inaction, including misleading (incorrect presentation of information), which knowingly or due to negligence misleads or attempts to mislead a party in order to obtain a financial or other benefit or avoid an obligation.

In practice, financial fraud can be:

-Monetary -Documentary -Accounting -Tax -Insurance -Business valuation -Computer - IT, etc.

Recently, financial fraud has been observed as a result of the so-called "creative accounting", which is a relatively new method and literally means creative accounting. Creative accounting can manipulate financial numbers, usually within the framework of the law and accounting standards, but far outside or against their spirit and certainly without providing a "true and fair" view of the financial condition and financial results of a company. It uses decidedly aggressive techniques to obtain a higher or lower financial result, higher profitability per share, etc. depending on the goals. It is "presenting financial information in a way that gives a false idea, but not in violation of the law."

In theory, some authors define it under various names such as "cooking by the book," "aggressive accounting," "number massage," "window dressing," etc. Creative accounting will not lose its relevance, because there will always be people who will find ways to circumvent the established rules.

In general, the areas in which targeted impact on annual financial statements can be exerted are the following:

- to influence the financial result for the reporting year, and depending on the goals pursued, it is presented higher or lower than it actually is;
- to influence the balance sheet structure in order to present the property status of the enterprise in a more favorable or less unfavorable light than the real one.

The motives for presenting the enterprise in a more favorable light, by inflating the financial result and distorting the property and financial situation, can most often be due to:

- Obtaining loans on better terms;
- Participation in tender procedures, especially for public procurement;
- Attracting investors;
- Attractiveness of shares and attracting shareholders;
- Receiving bonuses and premiums from management, related to the implementation of the company strategy, etc.

The motives for accounting fraud in the opposite direction to reduce the financial result and less favorable presentation of the property and financial situation, are generally due to:

- Paying fewer taxes
- Damage to shareholders and partners, by paying less dividends;
- Upcoming privatization – for example, with the aim of privatizing the enterprise at a lower price, etc.

In the most general case, the initiator of these manipulations is the management, and the instrument for this is the persons who manage the company's accounting services. Most often, this happens with the knowledge and participation of the owners, and in not infrequent cases with the knowledge of the auditor who certifies the reports.

We must also include **tax fraud** as a type of financial fraud. Many years ago, Benjamin Franklin said that "In this world, only death and taxes are inevitable"!

And while death is certain, the second one - taxes - may not be, because there are many ways and forms to circumvent this claim (legally or illegally), to pay taxes at a reduced rate or not to pay them at all, leading to tax fraud, as part of financial fraud, showing:

- making huge turnovers of new VAT registered companies in a very short period;
- presence of companies that only make sales, without any purchases (in practice this act is known as a "missing trader");
- suspicious banking operations - mainly payment operations;
- presence of commercial relationships between companies registered at the same address and keeping accounting records in one place.

There are many forms, means and sources of tax fraud. One of them is aggressive tax planning. This is a legal form (but contrary to the purpose of tax legislation) for creating a tax model aimed at reducing tax liabilities. Aggressive tax planning is done by using the technical aspects and weaknesses of the tax system of one country from another.

It is a common practice for a company to transfer its profits to a country with low tax rates, where they have no real economic activity, known as the so-called "tax havens" (offshore zones).

Another loophole for tax fraud are:

- double tax deduction - the same loss is deducted in both the source country and the country of acquisition;
- double taxation - income that is not taxed in the source country is also exempt in the country of acquisition.

Tax fraud is most often committed when taxing value added tax (VAT). And this is completely logical, since it is the largest source of budget revenue. In general, they are present when:

- tax returns are not filed or are filed intentionally with false information, with the aim of paying less or not paying the tax due;
- storing money in foreign banks or registering companies in offshore zones, without informing the tax administration about this, in order to avoid paying tax;
- skillful use of gaps in legislation and regulatory documents;
- participation in well-known tax schemes to commit tax fraud.

We conditionally distinguish two main groups of tax fraud:

- tax evasion and tax avoidance - occurs through filing false tax returns or failure to file such, lack of accounting documentation, gaps in legislation, etc.;
- VAT evasion - through shell companies and other fraudulent forms of incorrect refund or deduction of tax credit.

The most common VAT tax frauds are related to:

1. Fictitious export - a characteristic of this type of tax fraud is that the goods for export are exported only according to documents, while at the same time they remain in the country and are sold on the domestic market.

2. Chain of phantoms (mailboxes) - in this form of tax fraud, a chain of several companies operates, carrying out transactions. One of them accumulates tax liabilities, and all the others only use their right to tax credit and VAT refund.

3. Internet VAT fraud - one of the newest tax frauds. A characteristic of them is that the scheme is in the field of advertising and is carried out in global computer networks. It is usually carried out by offshore companies, by selling copyrights with VAT included. They are carried out several times at unrealistically high prices, which are difficult to prove by the authorities (through Banners).

4. Carousel type of fraud - in this case, the fraud is carried out in more than one EU member state. The most common variant is when there are three companies. The first A is a transferring (missing) trader, the second B is a buffer (intermediary), and the third C is a user (acquirer). Company A acquires the goods from another country, selling them in its country, without paying tax, etc.

Counteracting fraud is not only associated with identifying those that have already been committed and imposing appropriate sanctions, but rather with taking effective action to prevent fraud and abuse, or successfully implementing preventive control at all levels to prevent or maximally prevent such actions that damage both individual organizations and public funds.

Or in other words, prevention or preventive control must be applied to the conditions or environment that suggest the commission of fraud in order to prevent their occurrence.

In principle, prevention is primarily the responsibility of the managers of the relevant organizations, especially through the proper creation and implementation of a control environment, identification and management of the relevant risks and implementation of the relevant control activities.

The detection and prevention of financial fraud and crimes related to the financial statements of enterprises, in addition to the relevant managers, must also be carried out by internal and external independent auditors, which is an extremely important action both for maintaining the good image of the enterprise in the public eye and for the users of information from its financial statements.

They must exercise professional skepticism when conducting an independent financial audit of the financial statements of enterprises in order to assist in the effective identification of fraud that may lead to material misstatements in the financial statements.

The main ways for auditors to detect and prevent financial fraud and crime related to the financial statements of enterprises are as follows:

- to collect sufficient evidence to be able to justify their conclusions about the presence of financial fraud;

- to collect relevant and reliable audit evidence that helps to answer the specific audit objective or the specific assertion about the presence of financial fraud and crime in the audited enterprise;

- to pay special attention to the risk of not detecting material inaccuracies, deviations and discrepancies resulting from fraud or error. Fraud may involve complex and carefully organized schemes designed to conceal it, such as forgery, intentional failure to report transactions or intentionally made statements to mislead the auditor;

- to take into account the fact that audit procedures that are effective in detecting an error may not be appropriate in the context of the identified risk of material misstatements, deviations and inconsistencies due to fraud

- to develop special audit procedures for detecting material misstatements, deviations and inconsistencies due to fraud, etc.

In conclusion, with regard to fraud and abuse, preventive control over the conditions and environment that provide opportunities for their commission is much more effective than the subsequent one, which only finds such committed, without being able to influence them, regardless of its sanctioning nature.

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