

## SOME ACTUAL CASES IN FRAUD

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### Abstract

Fraud in accounting affects all segments of society; While it affects partners, employees and investors in a narrow sense, it affects the state and society in a broad sense. Decisions made by the business owner and partners through fraud first create problems regarding the future of the business; then it affects the country's economy.

Basically, accounting fraud consists of disorder. In other words, it can be said that there is an accounting fraud where there is a criminal disorder. Cheating people in businesses; bosses and owners are senior executives and business employees, which can be specifically listed as people working in accounting and financial units.

The most important event that comes to mind when it comes to accounting cheats in the world is undoubtedly Enron. This incident trick companies to both; It is also an answer to the question of how countries can damage the economy. Due to ethical, cultural and economic reasons, it is a common situation that events do not come to light or are not covered up when they occur and there are no lawsuits. Therefore, the necessary measures must be taken.

**Key Words:** Financial Information Manipulations, Fraud, Fraud Groups

**Jel Codes:** M40, M10, M14

## I. INTRODUCTION

Among the various kinds of fraud that organizations might be faced with, occupational fraud is likely the largest and most prevalent threat. Occupational fraud<sup>1</sup> — fraud committed against the organization by its own officers, directors, or employees— constitutes an attack against the organization from within, by the very people who were entrusted to protect its assets and resources.

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The big company scandals experienced recent years decreased the confidence in financial information. The financial information manipulation is pointed as the starting point of these scandals. The financial information manipulation is described as increasing or decreasing capability of the reported term profit by choices made between alternative accounting policies. The financial information manipulation methods can be analyzed under two titles as appropriate for the financial principles and standards and inappropriate for financial principles and standards. While the profit management, stabilization of the profit, aggressive accounting, big bath accounting and accounting errors are considered as the appropriate manipulation techniques of accounting principles and rules, fraud is considered as an inappropriate manipulation technique of accounting principles and rules. The most distinguishing point of fraud is the existence of intention. Fraud is an action performed to derive personal benefits intentionally.

ACFE (American Association of Cheating Reviewers) is the most important institution in the world within the scope of cheating and its reflection on business life, and it reaches striking results with its reports published every 2 years. In our country, MASAK (Financial Crimes Investigation Board); It operates more extensively both as a field of activity and as a population. ACFE (Association of Fraud Investigation Experts) is a professional organization established in 1988 to reduce fraud and white-collar crime and support its members in the detection and prevention of these.

One of the most important works of ACFE is the "Report on Nations on Work Abuse and Abuse" which was first prepared in 1996 and then published every 2 years since 2002. The report is based on business abuse cases reported by Certified Fraud Reviewers (CFEs) who have investigated cases of abuse worldwide. The analysis of these cases is crucial in terms of giving important lessons on how abuse is accomplished, how it is detected, and how organizations can reduce their vulnerability to this risk.

The 2018 Abuse report announced seems to be the most comprehensive report published so far in terms of the number of samples and the number of countries it covers. It is based on 2,690 business abuse cases reported from 125 countries by Certified Fraud Investigation Experts (CFEs) and the results can be said to be horrifying:

- A typical organization loses 5% of its revenue every year due to abuse, and the total loss from reported cases is more than \$ 7 billion and an average of more than \$ 1 million per case.

- The amount of losses due to abuse has been raised to \$ 130,000 (median). In addition, 22% of cases have losses of at least \$ 1 million.
- The report divided companies into 9 geographical regions based on their area of activity. Regions; It has been designated as the United States, Sub-Saharan Africa, Asia-Pacific Region, Western Europe, Latin America and the Caribbean, the Middle East and North Africa, Southeast Asia, True Europe and Central Asia and Canada. The Asian Psycho Region attracts attention as the region with the highest median loss amount of abuse events. (Median loss amount is 236 thousand USD)

Work abuse can be divided into three main categories:

- ✓ Abuse of assets,
- ✓ Corruption and
- ✓ Financial statement abuse

Among them, the most common (89% of cases in the report) in terms of the frequency of abuse of assets, however, is the least costly (median \$ 114,000 loss amount) in terms of loss amount. In contrast, financial statement abuse, which accounts for only 10% of cases, has had the greatest financial impact (median \$ 800,000 loss). Corruption misconduct ranks mid in terms of both frequency (38% of cases) and median loss amount (\$ 250,000).

According to the report, approximately 56% of cases of abuse were committed by individuals working in one of the following eight sections: accounting, operations, sales, senior management, customer service, purchasing and finance, administrative affairs. Accounting employees are in the first place in this field with 10.9%.

## II. FINANCIAL INFORMATION MANIPULATION

Financial information manipulation may be described as interfering the data of enterprises on their financial statements and reports and increasing or decreasing the profit by various alternative methods in accordance with the requests of the administrators.

Financial information manipulation is performed by establishments benefiting from the flexibilities of accounting principles and standards or modifying the financial information going out of that flexibility.

Financial information manipulation is performed whether within the frame of the accounting standards (the manipulations appropriate with the accounting principles and standards) or out of that standards (the manipulations inappropriate with the accounting principles and standards).

Financial information manipulation aims to effect the perceptions of the sharers by reflecting the performance or information of the financial statements of establishments deficiently or incorrectly.

When the literature is analyzed, the aims of financial information manipulation can be listed as below: (Bonner vd. 1998:505-506)

- Reflecting the value of the establishment higher by effecting the price and risk of the stocks, providing low volatility and low capital cost.
- Manipulating the wages of managers,
- Providing tax advantage,
- Decreasing the borrowing costs by increasing credibility,
- Reflecting positive impressions to the market related with the performance of the establishment,
- Effecting the perceptions of investors,
- Avoiding from political costs,

The financial information manipulation methods can be analyzed under two titles as appropriate for the financial principles and standards and inappropriate for financial principles and standards.

### **The Manipulations Appropriate with the Accounting Principles and Standards**

It is possible to list the manipulations appropriate with the accounting principles and standards.

- 1. Earnings Management:** It is declaration the accounting information deficiently or incorrectly by the managers or non-declaration of them in order to have impact on the sharers. The techniques of earnings management are performed in order to increase the reported profit and/or decrease the capital cost of an establishment. (Lambert, Sponem, 2005:719)
- 2. Income Smoothing:** The most important reason for smoothing the income is to show the establishment has a reliable and low-risk structure. With this method, it is tried to

avoid the fluctuations of the income by transferring incomes from the successful years to the unsuccessful years. (Tucker, Zarowin, 2006:253) The below mentioned three methods are used in order to smooth the income (Demir, Bahadir, 2007:11). Eliminating the incomes and zigzags gained in terms and covering instabilities creating insecurity such as profiting in a term and loss in another term.

3. **Aggressive Accounting:** It is reflecting the financial status and activity results deficiently and incorrectly for reflecting the performance of the establishment better by forcing the accounting principles and standards.
4. **Big Bath Accounting:** It is removing some unproductive actives from the balance sheet for reflecting the term of the previous management worse, during the terms while the management of establishment changes. Thus, the new management is reflected more profitable than the former ones. (Jordan and Clark, 2002:63)
5. **Accounting Errors:** Unintentional declaration of the financial statements deficiently or incorrectly is described as an error.

#### **The Manipulations Inappropriate with the Accounting Principles and Standards**

1. **Fraud:** Fraud as a financial information manipulation method differs from the other methods according to the intention issue. Within the scope of fraud, creating fictive records, false invoices, false delivery notes and documents are considered. (Hashimzade et al, 2010:11)

### **III. FRAUD**

Considering the oldest trick and its history, there have been a number of tricks in the tramp method since the invention of money, which goes back to about 750 BC, but changing the gold-copper ratio in the mixture of coins / coins paid after commodification of the trade, etc. Cheating has gained speed with processes such as lowering its value with various methods.

Fraud in accounting affects all segments of society; While it affects partners, employees and investors in a narrow sense, it affects the state and society in a broad sense. Decisions made by the business owner and partners through fraud first create problems regarding the future of the business; then it affects the country's economy. The decrease in taxes payable to the state, especially through cheating, harms all segments of the society. In addition to this, it is harmful to the accounting profession; it changes society's view of the

profession, makes the profession less reliable, and goes on to defer professions in the business world.

In June 2014, professional fraud has been defined as "to achieve personal wealth by intentionally using the assets of the employers and their professionally " by the Association of Certified Fraud Examiners (ACFE), which is founded in 1988.

Fraud is described by the Turkish Language Institute as "a trick, plot, ruse, intrigue, trickery, scheme performed for cheating and misleading someone". (<http://tdkterim.gov.tr/bts/?kategori=veritbn&kelimesec=156176>) In the Law of Obligations; fraud is described as; "one of the causes that maims will; if one of the parties is motivated to make a contract because of an intentional fraud of the other party, unless the error is not vital, it is not binding for the cheated party". In the Dictionary of International Auditing Standards, fraud is described as an intentional actions of person or persons at the management level, enterprise employees or third persons that are resulted with incorrect presentation of the financial statements. (Law of Obligations, Art. 28)

In the Independent Auditing Standards Declaration of the Capital Markets Board, fraud is described as "Intentional tricky and illegal behaviors of the ones in enterprise management or people responsible for administration or third persons for their own good". (Declaration on the Independent Auditing Standards in the CMB Capital Market, May 2006, Serial: X, No: 22).

Although there is no definition in the current Tax Procedure Law regarding fraud and its applications; In section 3 of our Tax Procedure Law No. 213, that is, the section devoted to crimes and penalties, in case of accounting and accounting fraud in the books and records in article 359, there are penalties to be imposed on those concerned. (Tax Procedure Law No. 213)

The Public Oversight Accounting and Auditing Authority has a different perspective on fraud. In the audit standard published on 10 December 2013 on the subject, "Management is defined as the deliberate actions involving deception by one or more persons responsible for senior management, employees or third parties in order to obtain an unfair or illegal law." (Independent Audit Standard 240)

According to the definition made by the International Auditing Standards Board; trick, is the action taken by deliberately misrepresenting financial conditions that may be subject to audit. ([www.aicpa.org](http://www.aicpa.org))

Frauds made in accounting can be categorized as fictitious/unrealistic revenues and assets, early revenue recognition before the expiring date, misclassification, overvaluation of assets and underestimation of liabilities, misplaced or unincorporated assets, misleading statements, frauds related to equity, related party transactions, misrepresentation of income, illegal behavior etc. (Petraşcu and Tieanu, 2014:490)

Over the last two decades, even with tremendous technological development and numerous changes in the global business and regulatory environments, ACFE's research shows that occupational fraud falls into several time-tested categories. The taxonomy of these categories is illustrated in the Occupational Fraud and Abuse Classification System, also known as the Fraud Tree, as depicted in Figure 1. (ACFE, 2018: 11)

The classification below has been made by ACFE. The latest version of the abuse tree that is regularly developed in the published reports is as follows. As the characteristics and compositions of companies and people change and develop; so the fraud classification also changes. First of all, the classification which is divided into three separate sections is detailed afterwards.

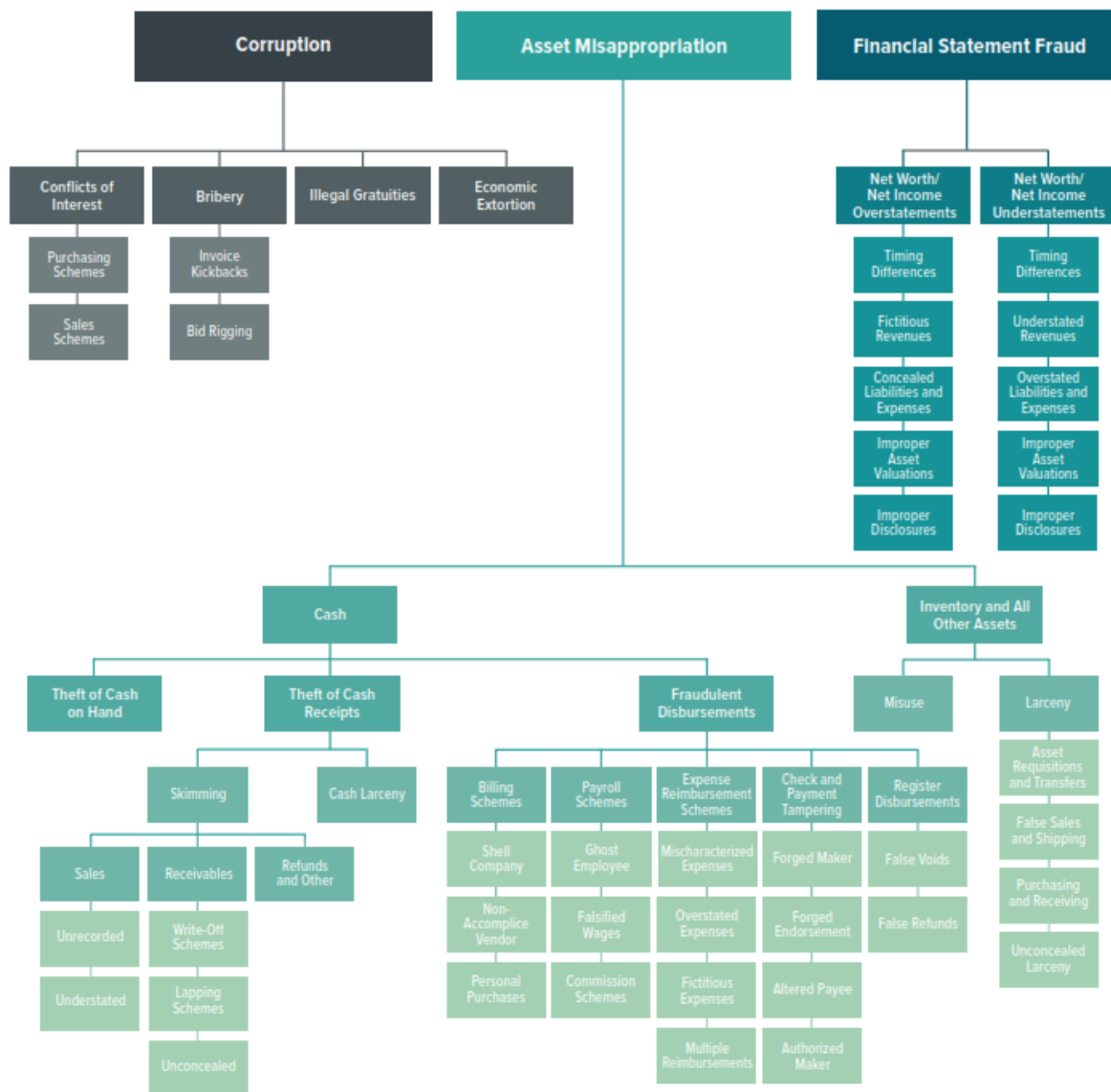


Figure I. Occupational Fraud and Abuse Classification System (the Fraud Tree)

### Fraud Diamond Theory

A well-known theory, which is discussed quite often in the literature, is the fraud triangle. This theory identifies the elements that lead perpetrators to commit fraud. The fraud triangle theory consists of three elements that are necessary for theft or fraud to occur: (a) perceived pressure, (b) opportunity, and (c) rationalization. Based on this theory, fraud is unlikely to exist in the absence of these three elements, and the severity of fraud depends on the strength of each element (Howe & Malgwi, 2006: 28).



With his researches, Cressy is the creator of the fraud trio; but in fact his researches did not have the concept of "fraud triangle". Joseph T. Wells, the founder of the ACFE, who has contributed the fraud triangle to the academic world as a term, and has done a lot of studies on fraud (Tarhan, 2012: 116)

In the studies conducted by David T. Wolfe and Dana R. Hermanson in 2004, a new understanding was introduced to the cheating triangle. With this study, it is thought that there will be progress in finding and protecting the fraud with a 4th element to be added to the cheating triangle. In addition to pressure, opportunity and plausibility staff, the authors considered the "personal capacity" as the 4th side and formed the "cheat tile". Personal traits and abilities are thought to play a major role in the formation of fraud, along with the presence of 3 other elements.

Since the structure of the cheat is very flexible, it can continue by increasing the cheat tile and then these elements after the cheat triangle.

### **Pressure**

There is a pressure element that encourages management or other employees to fraud or motivate to fraud. The pressures are usually financial. Examples of such pressure elements are big amounting bills, addiction problems, expensive pleasures, and gambling habits etc. More material difficulties come to the forefront of the pressure element. Albrecht et. al. (2006) remarked, that the word perceived is important because pressure does not have to be real; if the fraud perpetrators believed that they are pressurized this belief can lead to fraud. Lister (2007) remarks that, pressure has a significant role in committing fraud. Albrecht et. al (2006) noted that specifically, about 95% of all cases of fraud have been influenced by financial pressure.

### **Opportunity**

Opportunity that exists in organizations has a major influence on an individual's decision to commit fraud.

An opportunity is likely to occur when there are weaknesses in the internal control framework or when a person abuses a position of trust. For example:

- ✓ organizational expediency – ‘it was a high profile rush project and we had to cut corners’;

- ✓ downsizing meant that there were fewer people and separation of duties no longer existed; or
- ✓ business re-engineering brought in new application systems that changed the control framework, removing some of the key checks and balances.

Providing the fraud opportunity for the employees in the company is accepted as one of the most important factors in the birth of fraud. This is why it is often necessary to pay attention to this fact in order to prevent a fraud in an company. An employee who knows that there is a strict control in the company and who thinks that in a possible fraud the probability of getting caught is high, does not try to defraud easily. On the other hand, an employee who sees the opportunity to defraud and knows that it is less likely to get caught has more willing to defraud. (Abdullahi, Mansor, 2015:40-41)

### **Rationalization**

Fraud perpetrators sometimes do not view their actions as unethical; they merely justify their actions as ethical before fraud takes place. Fraud perpetrators must formulate some type of morally acceptable rationalizations before engaging in unethical behavior (Abdullahi, Mansor, 2015:45).

Fraudulent behaviors may be able to legalize their fraudulent behavior in accordance with their ethical conception; in other words, he might try to justify. Some people's moral perceptions may allow them to intentionally exhibit dishonest behavior. On the other hand, in environments where adequate pressure has taken place, it seems possible that even those who are not expected to anticipate such behavior behave in a fraudulent manner.

### **Capacity**

A study by David T. Wolfe and Dana R. Hermanson in 2004 found a new understanding of the fraud triangle and identified a fourth element to be added to the fraud triangle. This element is thought to make progress in detecting and protecting fraud. Wolfe and Hermanson have added "personal capacity" to the elements of pressure, rationalization and opportunity, and they have formed a 'fraud diamond'. It is thought that together with the presence of the other three elements, personal traits and abilities play a major role in the genesis of the fraud (Wolfe and Hermanson, 2004: 38-42) According to Wolfe and Hermanson (2004), the fraudster also has the necessary traits and abilities to be the right

person to pull it off, and that this person has recognized this particular fraud opportunity and can turn it into reality.

Different types of fraud Fraud can mean many things and result from many varied relationships between offenders and victims. Examples of fraud include: (CIMA, 2009:7)

- crimes by individuals against consumers, clients or other business people, e.g. misrepresentation of the quality of goods; pyramid trading schemes
- employee fraud against employers, e.g. payroll fraud; falsifying expense claims; thefts of cash, assets or intellectual property (IP); false accounting
- crimes by businesses against investors, consumers and employees, e.g. financial statement fraud; selling counterfeit goods as genuine ones; not paying over tax or National Insurance contributions paid by staff
- crimes against financial institutions, e.g. using lost and stolen credit cards; cheque frauds; fraudulent insurance claims
- crimes by individuals or businesses against government, e.g. grant fraud; social security benefit claim frauds; tax evasion
- crimes by professional criminals against major organisations, e.g. major counterfeiting rings; mortgage frauds; 'advance fee' frauds; corporate identity fraud; money laundering
- e-crime by people using computers and technology to commit crimes, e.g. phishing; spamming; copyright crimes; hacking; social engineering frauds.

It is possible to gather accounting frauds under 6 titles: (Rezaee, 2005:279)

1. **Intentional errors:** If the accounting errors are performed intentionally on purpose, they are considered as frauds.
2. **Unrecorded transactions:** Performing some part of the accounting transactions without any documents and without reflecting on the ledgers are called as unrecorded transactions.
3. **Entries recorded before or after their time:** Experiencing delays while recording the entries in ledgers. Transactions should not be recorded in the ledgers intentionally before or after their time.
4. **Made-up accounts:** Make-up accounts are misleading accounts opened for non-existing persons. They are usually used to match the unrecorded transactions.

**5. Forgery of documents:** Counterfeit documents are issued for reflecting unreal transactions like real. In this case, whether the document or its content is not real. Unreality of that document is called as fake invoice.

**6. Masking balance sheet:** Arrangement of the balance sheet different that original is called masking.

It can be said that the small-scale establishment usually try to show their actives and profits lower while the big-scale establishments usually try to show their actives and profits higher.

Frauds performed by the employees or managers of the establishment have become one of the most important problems of them. Some studies performed in several countries have showed us that %6 of annual profits of establishments are lost because of frauds.

There are several international arrangements related with fraud. The international arrangements for fraud and fraud management can be listed as below: (Green, Reinstein, 2004:5)

- Treadway Commission,
- Auditing Standards,
- International Standards of Auditing (ISA),
- International Financial Accountants Commission (IFAC),
- American Institute of Certified Public Accountants (AICPA).

#### **IV. FRAUD GROUPS**

When it is desired to make a classification as cheaters and those who suffer from it, the following table appears. In addition, it is thought that it will be enlightening about whether the cheating group is in the business, the people who provide the service provided by the business or the customers that the business personally serves, and in what direction the losses they may cause to the business.

The table below shows the type of fraud, the table of cheating and those who have been damaged, and their explanations. (Bozkurt, 2011: s.65)

Table I. Fraud Groups

Fraud Type	Victim	Side of Fraud	Explanation
Employee Frauds	Employer	Employee	Employee steals
Management Frauds	Financial Statement Relevant	Senior management	Financial statements are shown differently
Investor Frauds	Investors	People	Money is transferred to the investment
Seller Frauds	Buying Businesses	Sellers	Prices are inflated and money is received before they are shipped
Customer Frauds	Businesses Selling	Customers	The seller is deceived

**Employee Fraud:** In general, the employee defrauding his employer as a result of the employer's use or abuse of assets. These fraud can occur indirectly or directly. Cash, stock and fixture stolen directly in the section; the indirect thing is that there is a third party and as a result, the company is faced with the damage.

**Management Frauds:** It will not be wrong to express it as Fraudulent Financial Reporting. Such frauds cause serious harm. It is performed in the form of playing and changing the financial statements of the business. In this way, the damaged business is everyone to whom it relates. Lenders and government are targeted.

**Investment Frauds:** It is a type of fraud that can be expressed as Ponzi style and as a result of which investors are damaged. It is the sale of investments that have never been made or that are not as valuable as they seem to the investors who do not suspect more.

**Vendor Frauds:** These are the frauds made by the vendor that the business receives service from. Examples such as high-value sales or poor quality goods delivery, incomplete goods delivery can be presented.

**Customer Frauds:** These are frauds made by our customers that we can qualify as third parties. The purchase of goods and services at low prices, acceptance without paying or showing them as paid are examples of tricks in this area.

## V. CASE ANALYSIS

As it is known, fraud is the corruption that the actor performs in order to gain interest by knowing, willing and even planning. While the tricker is trying to gain interests, he aims to transfer the economic opportunities of others unfairly. It is possible to notice the scam/fraud for the parties whose economic interests are handed unfairly. Likewise, those who try to detect fraud professionally, realize the fraud and prevent injustice created by the fraud and try to ensure that the economic benefit is legally and fairly divided. Fraud can reveal victimized parties, independent auditors, Sworn-in Certified Public Accountants, Certified Public Accountants, and publicly serviced auditors.

Who can commit fraud?

- partners
- professionals
- third parties

### Case 1. Fraud Cases Committed by Professionals

Location: İstanbul

Industry: Retailing

The purpose of cheating: Obtaining unfair income

Companies: Alfa, Beta

Professionals: Financial Manager (X) and Purchasing Manager (Y)

Alfa company is a very large company operating in the retail sector in İstanbul. The Total open and closed area is thousands of square meters. Thousands of goods are bought wholesale, and it also sells in large quantities, wholesale and retail. It makes a large number of purchases on a wide range of goods from many companies. Accounting service records goods receipts by matching hundreds and thousands of delivery notes and invoices every day. Monthly buying and selling amounts are expressed in billion TL. The delivery staff performs meticulous work of taking the actual-count in the acceptance of the goods (purchased). Since the purchases are made at the very good prices and selling at a lower price than the market, many businesses working in the same sector can also make purchases from the Alfa company and retail and gain profit on their own behalf.

Together with the financial affairs manager and the purchasing manager, they founded the Beta company and started selling “SERVICE” to the Alfa company. Besides issuing too many service invoices to Beta, Alfa did not sell any goods, nor did it issue any merchandise invoices. Besides, Alfa bought almost all the services it needs from Beta. The cleaning and all the maintenance and repair services such as data processing, building, electricity, air conditioning, heating cooling systems etc., garden and transportation services which cost millions of lira were received from Beta. Since it is not possible for Beta to produce this volume of service by itself, it has purchased from subcontractors. Since the service invoices issued by the Beta are far above the reasonable unit price, the Beta acquired illegally. When this situation is realized, millions of liras of unfair profit are embezzled by the partners of Beta company. In these busy times, the independent auditor should notice the service invoice report this situation in the company's financial statements, and inform other professionals general manager and partners about the issue.

#### **Case 2.** Fraud Cases Committed by Partners

Location: İzmir

Industry: Food Sector

Purpose of Cheating: Making unfair profits

Companies: X and Y businesses

Partners: A, B, C, D contacts

A, B, C, and D are four siblings who inherited the Company X from their father. It is a successful food production business. It produces pasta, bulgur and pulse and sells them to the whole country. Partnership shares are equal. The company has been very successful for years, and the wealth of the partners has increased with their success. In the current situation, when X company earns an annual profit of 100 TL, each partner has a dividend of 25 TL.

The economic prosperity and wealth of the partners increased, and over time, the partners bought a real estate in London. The three partners started to spend an important part of their lives in London with their families. Only the partner A remained in İzmir, had to head the company singly, found a new company (Company Y) while his/her siblings were living in London, and took his/her siblings as the partners of this new company with 10% of the shares for each. With this company, in which he has a 70% share, he started marketing and distribution of the goods produced by the X production company.

Previously, while production and marketing were carried out within the X production company, now X production company transfers invoices the goods it produces to Y marketing company, invoices, and the marketing company sells and distributes. Due to the applied transfer price, 40% of the total profit is-(was) made in X company while 60% of it in Y company. Partner A manages both X and Y companies and follows such a transfer policy. While the previous profit of 100 TL is shared equally among the partners what means 25 TL for each; now, 40 TL of the profit of 100 TL was generated in the company X, and every other partner had an equal dividend of 10 TL. 70% of the profit of 60 TL that was generated in company Y, is distributed to the partner A 42 TL, and the remaining portion is distributed equally with 10% for each partners B, C, and D 6TL.

Accordingly, dividend distribution after the company Y was established is as follows.

Partners' dividend = From Company X + From Company Y

Partner A = (%25) 10 TL + (%70) 42 TL = 52 TL

Partner B = (%25) 10 TL + (%10) 6 TL = 16 TL

Partner C = (%25) 10 TL + (%10) 6 TL = 16 TL

Partner D = (%25) 10 TL + (%10) 6 TL = 16 TL

Partner A has established the Y marketing company and increased its consolidated dividend from 25% to 52%. In addition to the dividend, he also receives a high level of remuneration from both companies as he directs and manages the companies on behalf of his siblings.

The independent auditor may have performed his duty by presenting the dividend rates to the public's attention in the footnotes of the financial statements in this case. Maybe, however, the dividend of this these companies which are inherited from their father should be distributes equally among the partners in an ethical way. In addition to mentioning this fact in footnotes, it is very important for the independent auditor to explain to the partners B, C, D in detail to fulfill the ethical requirement.

### **Case 3. Corruption Made by the Customer to its Supplier**

Location: İzmir

Industry: Scrap plastic recycling



Enterprises: Enterprise X (scrap, plastic, nylon collector)

Enterprise Y cleans and melts scrap plastic and sells it to enterprises producing plastic products

Company X is the supplier of the company Y. The company X collects the plastic scrap found in the garbage that is recycled all year and sells it to the companies that make them processable. There is a high demand for scrap plastic collected by the company X. Company X which is having difficulties in satisfying the demand, developed a method as follows. Before the next year starts, Company X invites all the companies that want to buy the goods to the auction that is set up at a particular time. Company X gets a deposit that is collected for a year only to the company which is the highest bidder in the auction at the determined price.

Company Y has won the auction. The company purchases at a specified price that is agreed in the contract and the price is certain throughout the year. There is no need to set new prices. However, the price is High for the company Y while it is reasonable for the company X. Company Y issues a claim invoice to company X monthly or bimonthly. When the company Y is asked the question of “What is the problem are you facing with while issuing a claim invoice?”, the answer of the company was that: “We don’t have any problems, we issue a claim invoice equals to 5% or 10% of our total purchase amount. Company X never offers objections, asks us why or accepts.”

Company Y has chosen the way to lower the purchase price (by issuing a claim invoice), which has been determined high in its own way, Company X may be aware of this situation, maybe it is not. The claim invoice approach is a fraud that the customer implies against the supplier. There is no situation that requires claim invoice. The sales price should be determined more fairly.

## VI. CONCLUSION

The term ‘fraud’ commonly includes activities such as theft, corruption, conspiracy, embezzlement, money laundering, bribery and extortion. Fraud is a major issue facing companies, governments and organizations. Every year huge sums of money are lost because of fraud.

Who is responsible for the prevention and detection of fraud? The reality is that both management and audit have roles to play in the prevention and detection of fraud. One of the most effective ways to deal with the problem of fraud is to adopt methods that will decrease motive, restrict opportunity and limit the ability for potential fraudsters to rationalise their actions.

An effective anti-fraud strategy in fact has four main components are prevention, detection, deterrence, response.

In determining the fraud, it is important where to look and what meaning should be drawn from the current situation. There are some signs that alert and activate the auditors. These marks are called "red flags". For this reason, businesses should attach importance to the so-called "red flags", establish a regular tracking system and take the necessary measures.

Red flags that are common to most types of fraudulent activity can be categorized as employee (employee lifestyle changes, significant personal debt and credit problems, behavioral changes etc.) and management (reluctance to provide information to auditors, management decisions are dominated by an individual or small group, frequent changes in external auditors, company assets sold under market value etc.) red flags.

Being aware of red flags is only step one and is usually not enough for the company. Once a red flag is identified, it must be taken action to determine its effect. Evaluating the red flag may be accomplished by financial analysis, observation or by any other technique that tests an apparent weakness.

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