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# THE ECONOMIC FRAUDS

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**Abstract**:
*The economic frauds have been categorized separately from other crimes and criminal activity due to the use of fraud (and often conspiracy) to commit the crimes. The white collar or financial criminal has the same motive for crime,but through official position, status, sophistication, or professional acumen is able to effect the crime without the use of violence. White-collar crime contains several clear components. Financial or white-collar crime has a depth and breadth that is all consuming. It has a global dimension in all societies and all economies, to a greater or lesser extent. Developed countries, the third world, and emerging democracies are all subject to illegal business practices and fraud undermines the efforts of funding agencies across the world.*

**Key words**: white-collar crime, fraud, economic consequences, prevention, financial crime.

**JEL classification:** E59

## 1. INTRODUCTION

The economic frauds have been categorized separately from other crimes and criminal activity due to the use of fraud (and often conspiracy) to commit the crimes. The heavy thumb on the scales by merchants, the misrepresentation of the quality of livestock sold, the "salting" of mineral deposits in mining, and the street games of hucksters are all examples of man's willingness to take the earnings of others by fraud and deception to enhance their own wealth.

The investigator is responsible for presenting an accurate account of the financial activities that occurred, and sufficient evidence for establishing intent to commit the crime and the elements of the crime alleged. The white collar or financial criminal has the same motive for crime,but through official position, status, sophistication, or professional acumen is able to effect the crime without the use of violence. This has resulted in severe sentencing discrepancies between the white collar criminal and the street thug.

## 2. STATEMENT OF THE CONCEPT

There are, however,various general definitions of white-collar crime that have evolved over the years. The Dictionary of Criminal Justice Data Terminology defines white-collar crime as: ,,Nonviolent crime for financial gain committed by means of deception by persons whose occupational status is entrepreneurial, professional or semiprofessional and utilizing their special occupational skills and opportunities;also nonviolent crime for financial gain utilizing deception and committed by anyone having special technical and professional knowledge of business and government, irrespective of the person's occupation.,,

Violent crimes promote a clear response from citizens and law enforcement agencies in terms of various quick and effective countermeasures. In contrast, white-collar crime is, in the short term, perceived as being nontraumatic because it is generally nonviolent. It is in the longer term that deceitful behavior has a traumatic impact on business and communities.

White-collar crime contains several clear components:

• **It is deceitful** - people involved in white-collar crime tend to cheat,lie, conceal, and manipulate the truth.

• **It is intentional** - fraud does not result from simple error or neglect but involves purposeful attempts to illegally gain an advantage. As such, it induces a course of action that is predetermined in advance by the perpetrator.

• **It breaches trust** - business is based primarily on trust. Individual relationships and commitments are geared toward the respective responsibilities of all parties involved. Mutual trust is the glue that binds these relationships together and it is this trust that is breachedwhen someone tries to defraud another person or business.

• **It involves losses** - financial crime is based on attempting to secure an illegal gain or advantage and for this to happen there must be a victim. There must also be a degree of loss or disadvantage. These losses may be written off or insured against or simply accepted.White-collar crime nonetheless constitutes a drain on national resources. [8]

• **It may be concealed** - one feature of financial crime is that it may remain hidden indefinitely. Reality and appearance may not necessarily coincide. Therefore, every business transaction, contract, payment, or agreement may be altered or suppressed to give the appearance of regularity. Spreadsheets, statements, and sets of accounts cannot always be accepted at face value; this is how some frauds continue undetected for years.

• **There may be an appearance of outward respectability** - fraud may be perpetrated by persons who appear to be respectable and professional members of society, and may even be employed by the victim.

## 3. ILLEGAL ACTIVITIES AT THE COMMERCIAL AND PUBLIC SECTORS

Financial crime involves the use of deception for illegal gain, normally involving breach of trust, and some concealment of the true nature of the activities. A lot of illegal activity can occur in both the commercial and public sectors

In one sense, so long as there are weaknesses that can be exploited forgain, companies, organizations, and private individuals will always be taken advantage of.

Some of these illegal activities include:

• **Consumer fraud** - attempts to coerce consumers into paying for goods not received or goods that are substandard, not as specified,or at inflated prices or fees. The growing use of attractive Internet Web sites, as an alternative to unsolicited phone calls or visits to potential customers, compounds this problem.

• **Credit card fraud** - use of stolen credit card details to secure goods or services in the name of the cardholder. Sometimes a brand new credit card is forged using known details. Cards can be stolen or details obtained from files that are not properly secured; credit card details may also be purchased from people who are able to access this information. This is another growth area.

• **Kickbacks -** generally involve an employee with influence over who gets a particular contract, who is able to obtain something for assisting the prospective contractor. Likewise, bribes may be paid to inspectors to turn a blind eye to substandard goods coming into a loading dock. If bribes do not work, the dedicated fraudster may well turn to blackmail and threats.

• **Bid rigging -** When a vendor is given an unfair advantage to defeat an open competition for a given contract. A vendor may be provided with extra information to bid low but then raise more income through many variations to the set contract. This may be linked to the receipt of kickbacks. Election rigging is a similar but more sinister type of fraud.

• **Inflated invoices -** when a company inflates its bills without agreement from the bill payer, who may be a customer. Conversely, an employee may arrange to pay a vendor more than is due in return for an unauthorized payment or some other gain. An employee could also pay an amount to an entirely fictitious supplier, and divert the check to a personal bank account.

• **External fraud -** schemes by people who do not work for an organization but seek to defraud it. Advance-fee fraudsters attempt to secure a prepaid commission for an arrangement that is never actually fulfilled or work that is never done. Many international frauds committed via the Internet require advance payments for fictitious or substandard goods or services. Billions of dollars worth of health care fraud has resulted from several parties in the health industry conspiring with individuals to submit fraudulent medical bills for services not provided. Insurance companies suffer multitudes of fraudulent claims, often from sophisticated parties who conspire to commit a series of well-planned scams. In short, any organization or public body that provides something of value (for example, food stamps, cash grants, compensation payments, claims, refunds, loans, and equipment) may be subject to efforts by external parties to defraud it. In Europe, the European Commission has found that fraudsters can obtain millions of dollars from irregular claims if there are not adequate controls over the process, including physical verifications. [7]

• **Inventory theft -** straightforward stealing of stock from an employer.It can also involve stealing scrap and goods that are returned by customers,as there may be less control over these items. A bigger problem is shoplifting: customers rather than staff steal billions of dollars worth of goods from retail outlets each year.

• **Theft of cash -** misappropriation arises when cash comes into a company and is diverted. *Skimming* occurs when cash is taken before it enters the books; for example, by a cashier. *Embezzlement* involves a direct breach of trust, when someone entrusted with the cash diverts it for personal use. *Lapping* is a technique whereby the theft of cash or checks is covered up by using later receipts so that the gap in reported figure for these types of frauds is only around 10 percent of the actual losses.

• **Basic company frauds -** when an employee fakes sickness to obtainpaid sick leave, submits inflated overtime claims, or uses company equipment for an unauthorized purpose which may be to operate a private business. When this private business competes with the employer's business, the fraud may also involve theft of ideas andcompany information such as a client database.

A more dangerous development is the sale of information and ideas that the employee has access to. Pilferage relates to small items taken home by staff.

## 4. FRAUD WITHIN ORGANIZATIONS

Fabricated time sheets can constitute a theft of time (and therefore pay) from businesses. What used to be a basic deception, but is now a major problem, is falsified information on résumés from persons seeking employment. In some cases, the person being employed is very different from the person on paper, who appeared to have the skills, competencies, and credentials needed. Some argue that more than half of the material that appears in a typical résumé is misleading.

Someone who lies to a prospective employer from day one may be the type of person who will engage in deception as he or she settles down with the company. Many organizations have some staff who engage in basic company deceptions.

• **Travel and entertainment (subsistence) claims**—when claims are falsified,inflated, or there is basic abuse of the scheme. Small-scale abuse occurs when people simply overstate their claims. It gets more serious when the claimants put in fabricated sums and even forge the line manager's signature. Fraud by an accounts clerk who operates a payments scheme can be substantial, as the aggregate amount grows over time.

• **Check fraud**—when a company check is stolen, altered, or forged, it may be diverted to an unauthorized person who accesses the funds and then closes the account or simply disappears. Company secretaries and accounts personnel may also slip additional checks into a signing routine to effect significant levels of fraud against a company.

An extension of check fraud is bank fraud, whereby individuals (and businesses) seek to defraud banks of funds, normally in the form of unsecured loans.

• **Identity fraud**—this is now a major issue in society. There are many reported cases where people have had to defend themselves against claims, because others have stolen their identity, using personal data such social security number, address, date of birth, and so on. The costs of reestablishing a reputation that has been impaired through credit card fraud and other fraudulently incurred debt can be tremendous in terms of both money and time.

• **Ghost employees**—getting extra names onto a company payroll and diverting the funds to a bank account specially set up for this scam.
If an employee can stay on the payroll after having left the company, again extra funds can be obtained for a while. Unauthorized changes to payroll times, rates, and claims can also result in money being diverted for illegal gain.

• **Misappropriation schemes**—come in many forms and guises; detection is made more difficult by efforts to conceal the nature of the funds lost to the company. Writing off income that was actually received is one concealment technique. Altering sales figures, obtaining blank purchase orders, amending documentation, diverting vendor discounts, and writing off balances that are thrown out from account reconciliations are all ways that an employee can misappropriate funds and balance the books at the same time

• **Computer-related crimes**—computer hacking can be a steppingstone to securing data, accessing rights, and providing a means to commit fraud. Therefore, fraudsters may be involved in sabotage, software piracy, stealing personal data, and amending or damagingrecords held on computer systems. Younger people brought up in a computerized environment can run rings around their senior managers, who may not appreciate the opportunities for unauthorized transactions that are inherent in automated information systems. In some organizations staff have more access rights than they need to have to do their jobs. Computers have great facilities to hide irregular transactions, but at the same time can capture lots of information on the trail of each transaction.

• **Financial statement fraud**—this can be very serious and can be used to encourage investment and loans through fabricated or falsified financial figures. Inaccurate earnings figures may also be used as a basis for performance bonuses. Popular frauds involve people buying stock and then "talking up" the price and selling before the market spots the distortion and falls back in line. Some credit card frauds link into share frauds, in that the stolen cards are used to buy stock in the name of the rightful card owner to help boost share prices Alternatively, a company may be entirely fabricated to attract funding;once the money is obtained, it and the bogus company disappear from the face of the earth. [7]

• **Sundry frauds**—there are many types of fraud that have not yet been mentioned, such as illegal price-fixing cartels; pyramid investment schemes; environmental abuse, such as waste pollution; money laundering, where illicit money is turned into legitimate usable funds; mail fraud; counterfeiting; and racketeering, where someone operates an illegal business for personal profit. [2]

A lot can and does go wrong for both organizations and private individualswhen fraud is allowed to prosper. Smaller businesses were found to be most vulnerable because they tended to have less sophisticated financial controls, and to place more trust in managers.

Losses caused by fraud among executives and managers were found to be some six and four times greater, respectively, than losses caused by other employees. Typical frauds found were asset misappropriation (cash, supplies, information, and equipment), fraudulent statements, illegal gratuities, bribery, and corruption.

White collar crime seems like the nice end of criminal activity, since it does not usually involve violence, and the perpetrators are just like the people next door. [1] However, its economic consequences can be devastating, and in the wider scheme of things it can be even more lethal than crimes of physical violence. White collar and other types of crime tend to operate handin-glove and even be symbiotic. Money laundering is another illegal activity that makes the cross-walk between the 'nasty' end of crime and the 'nice'end. What is clear is that 'white' collar crime is not the preserve of the angels although policing agencies tend to treat it as a low priority compared with other types of crime. [6] It is a difficult balancing act between civil liberty and minimizing crime, but a system which plays into the hands of the organized white collar criminals has a mushrooming impact on crimes generally. It is already expensive economically, and is a price that the law abiding are forced to pay, a redistributive tax which has all to do with human rapacity and nothing to do with the public good. [8] It has to be time to confiscate the ill gotten gains of such activity, and to place the burden of proof for once back on the suspected perpetrators. The huge excitement and promise which greeted the onset of the 21st century is in danger of being undermined if the white collar crime threat is allowed to perpetuate itself unchecked.

The list with10 key points relating to the importance of addressing financial crime:

Fraud is a billion-dollar business.
There are many different types of fraud.
Fraud is on the rise.
Trusted employees can become fraud perpetrators who will rationalize their behavior.
There are many reasons why organizations do not see fraud as an important corporate issue.
There are also many reasons why there must be a powerful and positive response to combat fraud.
Organizations can be victims or protected; much depends on the adopted approach and culture.
Fraud must be seen as a business risk and then tackled along with other known risks.
The actual scale of fraud risk may be unknown in an organization.
Many organizations are being defrauded either with or without their knowledge. A lack of reported fraud is not a good guide to whether an organization will be targeted in future.

## 5. CONCLUSION

Financial or white-collar crime has a depth and breadth that is all consuming. It has a global dimension in all societies and all economies, to a greater or lesser extent. Developed countries, the third world, and emerging democracies are all subject to illegal business practices and fraud undermines the efforts of funding agencies across the world.

Fraud rings will adjust accordingly and new counterfeiting methods will emerge and law enforcement and investigators must maintain a global look when facing this type of fraud. Public perception of fraud and corruption also affects the level of charitable donations and grants for countries struggling with natural disasters. If the funds cannot get to the right places, there is less impetus to give generously.

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