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Abstract

The current study examined the patterns of the similarity of corporate frauds. It used written scenarios of the frauds experienced from workplace. Participants were 10 graduate MBA students in a controllership program of the Presbyterian Mackenzie University, located in São Paulo, Brazil, during the period of December 2013. In our study, they described the recent types of fraud they witnessed. A premise supports the similarity of frauds in regard to misappropriation of asset following the flaws in internal control and the authorising schemes. Our study concludes for the scenarios holding for similarity in misappropriation of assets plus monetary theft and corruption; however, no similarity was narrated in regard to frauds of financial statement.

Keywords

Corporate Frauds, Similarity of Frauds, Misappropriation of Assets, Financial Statements, Brazil

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Patterns of Similarity of Corporate Frauds

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Today, amidst globalization and competitiveness, managers seeking to provide results on one hand in alignment with corporate objectives and on the other hand in line with personal expectations are motivated to fabricate favorable figures; then resulting earnings management. For Beaver (1998), managers have various personal incentives in the choice of disclosure procedures, and it is thus the job of the independent accountant to monitor and certify the fairness of the financial statements.

According to the positive approach to accounting, firms choose their accounting disclosure policies trying to minimize contractual costs and in defence of managers' individual interests (Watts & Zimmerman, 1986).

Thus, in order to back such situation, nebulous accounting treatments do occur, or otherwise information asymmetry that warrants human interference in the accounting information systems which implies fraud. In 1939, James Sutherland coined the term "white collar crime" to describe criminal acts involving individuals within organizations who act in their own benefit to the organization's detriment (Wells, 1997). Since then, this term has gained force, and now white collar crime can be said to take in any financial fraud.

A perceived disorder of the control environment where that happens would show that something must be fishing, probably as a result of agency conflict or a manifestation of breach of trust. In other words, a lack of alignment between corporate intents and how the business is driven, whereby the managers through the bottom-line tend to produce results, such as: manipulate accounting records as "classics as provisions, credit policies not well defined deliberately so that sales are made to customers whose debts history exceed 180 days; conduct business with decision out of compliance as implement a loan policy to stimulate the growth of small distributors and/or customers. Enron, WorldCom, Adelphia, Global Crossing, Parmalat, Lucent, Tyco and Xerox are some examples of frauds cases that occurred in the beginning of this millennium. It is important to mention that independent auditing firms can also be held liable for the occurrence of financial statement fraud. The most known example is Arthur Andersen, which was one of the Big Five auditing firms, but was held to have colluded in the accounting fraud at Enron, and went bankrupt just as its client did (Murcia & Borba, 2007).

As an analogy, in the aforementioned situation, there is a portrayal of an internal control structure whose pillars are made up of *Iroko* tree which seemed to have been devoured by

termites leaving it hoarse and fragile. We know that the morphological variation of an *Iroko* tree allows it to take the extension of 50m height with a diameter of up to 250cm. This seemingly green environment covered by this tree with its gloomy shades for some decades appears sick and needs adequate diagnostics.

In this analogy, the procedure may be likened to that which is perpetrated by the manager within the limit of authorization however, in a dubious manner that threatens the going-concern. Cressey (1953) in the triangle of fraud associates it with pressure, opportunity and rationalization; while Dorminey, Fleming, Kranacher, and Riley, Jr. (2011) in their further studies relates it to factors as pressure, rationalization, criminal mind and arrogance. But one further soliloquy pinpoints greed as one of the reasons for the act if no possible certain causality could be analysed in isolation.

In the normal circumstances, the cases of fraud impact the company's results, but in an adverse manner and also open loopholes for additional fraud by precedence, virtually inconsistent with the reality and or acceptable accounting procedures if not treated with due care. However, if we toe the suggestion of how to inhibit such fraudulently marked results, we have the solution to implement compliance programs that is consistent with the company's goals with continuously monitoring of the level of governance from the bottom line. In this line of thinking, Lynn Turner (1999), former chief accountant of the Securities and Exchange Commission (SEC), points out that "given the fact that accounting is done by people, I do not expect us to be able to totally eliminate fraud. We shouldn't ignore it but rather, we should proceed with timely and appropriate enforcement actions."

What we see in some organizations where awareness is above average, in relation to some of these problems is the implementation of internal control systems that are supported with ERP and the ancillary security systems, configured to create accountability, responsibility and audit trail for any accounting transaction and also leaving rooms for monitoring procedures. Certainly, the process of human intervention would always create an avenue to be perpetrated by intentional fraudster, but that is why the ERP has to be fully implemented so as to avoid this exposure. Not undermining the values of integrity, compliance of knowing your customer, knowing your collaborator and knowing your supplier should be firmly stressed.

Question Statement

Therefore, toeing the trends of the current dialogue, this study is bent to corroborate the question of: how are the frauds perpetrated by employees in the corporate environment similar in nature and attitude?

Aims of the Research and Premise

Thus, the current study is aimed at providing the picture of the similarity of frauds perpetrated by employees in the corporate environment in the Brazilian scenario.

According to Murcia et al. (2014), the Brazilian market has some specific characteristics that can lead to different results than those founded in other markets: (i) a code Law legal system mainly derived from Portugal, (ii) low levels of enforcement by judiciary and (iii) low levels of transparency. Moreover, noteworthy also the economic importance that Brazil has been gaining in the global economy, due to high economic growth rates presented in recent years, inflation being under control and the stability of its financial institutions. In 2012, Brazil became the 7th largest economy (Murcia et al., 2014).

Additionally, the study will expatiate on the attitudes of the fraudulent act based on each elements of the diamond of fraud suggested by Dorminey et al. (2011) and corroborated by ACFE (2012).

Our premise supports the similarity of frauds in regard to misappropriation of asset following the flaws in internal control and the authorising schemes.

Relevance and Contribution

The study of the patterns of the similarity of fraud is meant to elucidate the phenomenon and also furnish probable solutions to assisting in curbing the ill of our contemporary society based on the perception of the commonality and needed measures to curb them. According to Lopes de Sá and Hoog (2005), a policeman who does not know the “thief’s technique” will not be able to solve crimes efficiently. Hence, knowledge of fraud is the safest way to protect against it.

There seems to be a gap between the comprehension of the patterns of frauds in many countries and the mitigating controls, and also the understanding about the most common frauds and the use of drivers through policies to track them, this study tends to abridge this gap and highlight them to the practitioners and also propitiates literature to academia.

According to Sá (1962), half a century ago, has already warned that, for accounting science, all frauds represented a denial of the truth and, therefore, would require the study of its causes and effects, as well as their pathological condition.

Noteworthy, that frauds and corruption work hand in hand and are acts known to give sustenance to certain social ills such as malnutrition resulting from deviation of public resources, barbaric crimes, drug trafficking, money laundering and even give a base for the propagation of terrorism.

Literature Review

As may be observed in the diamond of fraud Figure 1 by Dorminey et al. (2011), there is the illustration of the characteristics of the fraud environment that include: pressure, opportunity and rationalization that are reinforced by a criminal mind and arrogant attitude of the perpetrator. In the same line of thought, ACFE (2012) suggested that the process of a fraud can take the following steps: i) pressure - the desire or the need to commit fraud; ii) opportunity - identification of flaws in control, which allows the performance of the act; iii) rationalization - self-conviction, after evaluating the risks involved, that it is worth taking it, and; iv) ability to intuit that he or she has the characteristics and skills needed to carry out the fraudulent act.

Figure 1 – Diamond of Fraud

Source: Dorminey et al. (2011)

Yet, in cognisance of the phenomenon of fraud, Imoniana and Silva (2013) drew attention to cultivating a collective self-awareness of corporate fraud; following the model

presented in Figure 2 by demonstrating the W5H (What, Why, Where, When, Who and How) of corporate fraud.

Figure 2 – Model of the Collective Self-Awareness of Corporate Fraud

Source: Imoniana and Silva (2013)

In a detailed acknowledgement of the work of other authors these topics could be expatiated on without prejudice to the model raised by the above authors in the following categorized manner.

Pressure Leads to Fraud

Excessive pressure from the superior or still the allied and friendship circle that had architected the fraud scheme or better still, from the custom of living above ones earning may be preponderant. According to Bell and Carcello (2000) and Wells (1997), existence of excessive pressure on a firm's executives to meet the targets set by the board of directors as suggesting an environment propitious for fraud.

Also, have a pressure from the family to obtain the money from whatever means one is able to create for the fund, normally result fraud and corruption. We agree that a subordinate would not like to lose his job if his is lured by his superior to commit fraud; the force from the top is just too heavy so, unless a fraud awareness program is well implemented with the complainant channel well structured, and a whistle-blower well assured of protection, it would be difficult to track such frauds.

Take from instance, the culture of polygamous homes which give the head of the family enormous financial responsibilities, in particular in the countries where birth control is very precarious, could create this avenue for family pressure. We observe that with the information

era, and purchases powers increasing in the third world countries, access to shopping through internet is worldwide and no restrictions. Would you tell your son that he cannot have a Cell phone when his colleagues can flip around with the most recent model? In the most polygamous vicinity homes you must be prepared to buy for 8 or 9 within the ages of 10 and 13; the question goes as where to have the money to maintain this standard, if the salaries from public officer is not enough to withstand these spending, it is only by bribery and corruption, thus, this cultural permissiveness may be a source of fraud and corruption.

What looks a bit more rampant nowadays is the political pressure, very much pronounced among political parties in the modern democratic society. In this ambient where members give pressures on members with the name of sustainability including the financial sustenance when bribery and corruption is planned with kickbacks from projects manned by the political parties normally in power is a fertile land for the act.

Probably this explains why some unhealthy political attitudes designed to misuse the public resources by indulging politicians in corruption fight to perpetuate powers by maintaining the cronies in the strategic positions.

Opportunity Creates Fraud

Internal control is the cornerstone of the wellbeing of the business environment with the governance providing support to the management as they implement their control culture. Noteworthy that when the controls are not implemented with full support of the administrative or supervisory boards, they lose weight so, the monitoring and accountability may be fragile leading to ineffectiveness of internal control systems.

This perception of ineffectiveness of internal controls or fragile rules paves way for the opportunity to be perpetrated by the intending candidates of fraud in the control environment.

There are also laws and accounting standards that give double interpretations, and certainly pave way for perpetrators to explore the fragility of such laws for incompliance or even compliance fraud. While there are similarities between GAAP and IFRS, the differences between the standards create a perceived opportunity for potential perpetrators of fraudulent activities; differences include the overall structure of the two standards and application (McAfee & Guth, 2014).

And in the final analysis, the flaws in such control, whether intentionally or unintentionally, would create a room for manipulation of control procedures.

Rationalization Not Excuse

Having the rationale for fraud and corruption is not an excuse. What a people! Analysing the risks involved and drawing a convincing line of conclusion that it is worth taking it, what precedence and citizenship do we hope to mould?

According to Albrecht, Albrecht, Albrecht, and Zimbelman (2009) fraud arises from (1) a perceived pressure, (2) opportunity exists, (3) some ways to rationalise the fraud as acceptable.

Arrogance

Thus, without exaggeration, arrogance seems to be a problem of cultural brought up of individuals behind the whole issue of fraud which holds for the personification of a fraudster in a psychological standpoint.

An in-depth observation makes one relate the arrogance attitude to how the fraudster in a high echelon treats his counterparts while distancing people from himself. Treats people with

certain way of making people feel a complex of inferiority. Observe these “counsellors in the far community side, rob the whole money allocated to provide wellbeing projects (investment in social projects) for the betterment of the community but keep the fund for themselves and keep a distance so that people are unable to perceive their fragility. Afterwards who is ready to lose his public post in a place where this is only the existing job?

Do we call a fraudster a psychopath or sycophant, probably that would be an exaggeration of the author who is not a psychologist, probably a more database analysis would proof this assertion, but the culture of manipulation of persons for individual advantage supports this daring conclusion. The conscious knows that what is being done is wrong and at disadvantage of the whole society but keeps mute for personal advantage. In some cases, the unconscious begins to get perturbed as wants to be set free from the burden of keeping that in the circle of fraud.

Believe me or not, this trait of personality tends to ascend in the dynamic environment which is very common in today’s emergent countries for instance. This somehow explains the picture we have in the countries such as China, Pakistan, Nigeria, India, Brazil etc., which have a very much room for growth and being set back because of fraud and corruption.

Criminal Mind

The mind-set seems to permeate all the strategies and operating procedures developed by the fraud perpetrator.

The perpetrator in this moment may be dangerous while implementing the strategies in that any stumbling block would be demolished through available counter strategies; very equivalent to those used by the mafias: killings, eliminating, demotivating the subordinates or in the final analysis suffocating who may be creating a deterrence.

Human Greed

After the analysis of the aforementioned factors, one continues to question if all the above are not as a result of human greed, as in Figure 2. As that could be likened to an insatiable element giving the gods to manage the collective resources as if it is personal property. After all, these people are fully rewarded for the job they perform and do not need additional compensation through kickbacks, corruption or confiscation of public funds through powers bestowed on them.

Effectively, when the fraudster usurps of what does not pertain to him in an inappropriate manner and depriving the needy ones from receiving infrastructures, social amenities particularly associated with the public coffins, one would say it is greed.

Greed is a continuing part of human history because it serves powerful ego, wants and needs that are espoused modelled, reinforced and rewarded at all levels of society, greed behaviour becomes problematic for organisation and for individuals when it results in illegal or criminal action, such as the abuse of the public trust, fraud, theft and damages the well-being of others for personal gain (Bruhn & Lowrey, 2012).

In fact, we observe the impact of greed in fraudulent act as Glasberg and Skidmore (1998) hammered that two perspectives prevail in analyses of the savings and loan industry’s crisis of the 1980s and early 1990s: on one hand are claims of individual fraud and greed; on the other are arguments focusing on organizational factors, particularly the deregulated environment in which lax or non-existent oversight encouraged “collective embezzlement.”

Why don’t we build adequately the environment we want for our beneficiary? Afterwards, we see employees getting bonus holidays having met up targets; this in itself increases quality of life and reduces this anxiety of unlimited target or riches.

In this tone, Hasty (2005) suggests that “as selfish crimes of calculated desire in the absence of public discipline.” It is therefore assumed that a more pervasive public exercise of social discipline through state institutions will work to prevent corruption by stifling the selfish greed of individuals.

This triggers a food for thought as one establishes a presupposition as the following to further work on:

P1 – Social ills emanate from the odd environment, generated by Machiavellianism trait individuals who are unable to look beyond their umbilicus in pursuit of richness that threatens the existence of one’s closest neighbour.

Sycophant

Psychological problems make employee unfit some positions and generally create internal control environmental deadlocks.

Effectively, the human resources procedures of internal control systems could help cut the bad by the root when hiring these employees. The selection practices could identify employees who are obsequiously and servile self-seeking flattering, lawbreakers who could generate in compliant costs that are associated to fraud.

Thus, it is not unfair to belief about psychological and social problems among employees who are motivated by impressive quick money made through fraud and association with groups where there is a prevalence of corruption schemes. Or in another look, does that seem to be a deviation in personality trait of persons who are egocentric, impulsivity, lack of remorse and culpability which is diagnosed in anti-social personalities. If correct, then the public administration has to earmark resources to solve these ailments with the support of adequate monitoring procedures.

In furtherance of reflective presuppositions, one would say:

P2 Psychopathy in our society depicts a result of reckless public governments, serving as examples to the aggressive young citizens in a barely non-enforcement ground.

Lawbreaker

Those who are lawbreakers and also lure others to commit mistakes voluntarily in order to perpetrate fraud are dangerous to the society.

Today’s environment in itself hinders the bringing up of plain citizenship particularly when you consider various interested groups, political and social wise who put in their mind that since the government is not in their hand anything done is useless. Thus, responses which compliance programmes propagates should be held very serious.

In regard of this, we may infer on myopic deterrence policies purported by a group of lawbreakers so as to perpetrate fraud, this could describe the *modus operandi* if the law breakers leave a loophole to be perpetrated.

As a further reflection, one would raise the following presupposition:

P3 – The narcissistic and self-deceptive lawbreakers is unaware that the world is already awake towards non boundarily corruptible criminal offences.

Methodology

In order to analyse the scenarios, a qualitative modelling and content analysis in the lens of an interpretative research were the approaches adopted in this study. Also, the critical reality theories are used to discuss the issues therein. This was felt as appropriate in that a critical and collective concern of fraud and its perspectives ought to be analysed based on their epistemology that are appropriately categorised.

As per Bogdan and Biklen (1998) and Bardin (2004) content analysis of data gathered could suffer prior analysis; codification and summarization; and lastly the definition of models emerging from the treatment and interpretation of the results. Thus, in this study we adopt the schematic representation of content analysis presented by Perez (2006) that suggests pre-analysis, coding of categories (CD), coding of units of significance (US), grouping of codes, summarizing concepts in categories and description of the emerging models.

The said schematic representation could be shown in Figure 3.

Figure 3 – Approach to content analysis

Source: Adapted from Perez (2006)

The study gathered purposefully cases from 10 graduate executive students of MBA program in controllership to narrate their experience, which are documented by scenarios in the way it occurred to them.

For reasons of comprehensibility 7 of the 10 were effectively considered for analysis after application of the readability analysis. In conjunction with the word analysis we also processed the enhancement for the identification of the most common and repeated words in the narratives.

Finally, we ran the ScraperWiki (2014) a platform with tools for data mining to enable us identify the most representative phrases and words for the interpretations of the similarity of the scenarios.

Analysis

The analysis of personal statements for patterns of similarity has been done individually, in the content of the data gathered from the scenarios, following the categories carved out from the narratives to support the presentation of the ideas.

This interpretative research analysed a multiple Scenarios of frauds reported by a group of MBA students in a Graduate MBA program from Presbyterian Mackenzie University in São Paulo region on Brazil, narrated purposefully upon demand of the researcher in the period ending 31 December 2013. The students are age groups of 40 - 55 with a versatile working experience. The respondents gave personal statements of experience of recent frauds in their working environment very narratively without restrictions however, trying to disguise the identity of such organisations as no permission have been given to cite names. Ten of them were given but 7 more comprehensible ones were chosen considering theoretical saturation and they are described as follows through codified phrases.

A researcher decides for a group after data gathered with a number of subjects, and a certain number of interviews begin to present a sort of repetitions in their content (Turato, 2008).

CD01 – Dishonest Manipulation of the Employee Electronic Register

In this first scenario, an organization through its HR management manipulates the employee electronic register for the hours worked to induce the employee to work more than expected working hours. In a tentative to correct such act manually, the management installed an ancillary system that shuts down the normal employee register system five minutes after the end of work days. Any other hours worked is not recorded and so not bidding according to the employee rules. This eventually, stops the management from authorizing overtimes for the subordinates who work after these service hours thereby hiding inefficiencies if at all covered by overtime. Employees expect that the installation of a system that is less prone to operation's disruption and manual interference by instituting a correct control of in and out of employee would relief the organization of such employee contingency risk. This infringement of employee law poses serious contingency that is indisputably punishable in law. The act of dishonesty by the management tends to lay a wrong precedence for other petty frauds that could lure a lower hierarchical staff to other frauds which they think they can conceal.

Word Statistics

Total # of words: **250**

Total # of unique words: **145** (58% of total text)

[\(show all unique words\)](#)

Unique words: an | organisation | through | its | management | manipulates | the | employee | electronic | register | for | hours | worked | by | human | resources | department | to | induce | work | more | than | expected | working | hours. | in | a | tentative | correct | such | act | manually | installed | ancillary | system | that | shuts | down | normal | five | minutes | after | end | of | days. | any | other | is | not | recorded | and | so | bidding | according | rules. | this | eventually | enables | stop | authorising | overtimes | subordinates | who | these | service | thereby | hiding | inefficiencies | if | at | all | covered | overtime. | employees | expect | installation | less | prone | operations | disruption | manual | interference | instituting | control | out | would | relief | contingency | risk. | infringement | law | poses | serious | indisputably | punishable | law. | dishonesty | tends | lay | wrong | precedence | petty | frauds | could | lure | lower | hierarchical | staff | which | they | think | can | conceal. | seems | be | sort | corruption | as | resources. | question | does | go | what | manner | different | from | earning | management. | apparently | none | much | manager | tries | hide | his | inefficiency | adequately | managing | budgeted | some | tasks | under | unlawful | shutting | register.

Total # of repeat words: **105** (42% of total text)

[\(show all repeat words\)](#)

an(2) | organisation(2) | management(5) | the(18) | employee(9) | register(2) | for(4) | hours(4) | worked(2) | by(4) | to(11) | work(3) | in(4) | a(7) | correct(2) | such(2) | act(3) | system(3) | that(5) | down(2) | after(2) | of(11) | other(3) | is(4) | not(3) | and(3) | this(5) | control(2) | contingency(2) | frauds(2) | they(3) | as(3)

Average # of words per sentence: **25**

Total # of sentences: **10**

CD02 – Non Integrity of Asset Control Register

In the second scenario an organization allows its employees to take home computer resources such as notebooks to work for the company from home. However, no internal control procedures such as asset register, asset tags, and sign-off and sign-in have been put in place to regulate the outings and incoming of the company assets. Nobody could be held responsible for notebooks that are inexistent as one is unable to account for the computer that has been taken home and who effectively has one. To the effect that employees dismissed had in their possession computers that were unaccounted for. Who would you ask to return equipment in the time of absolute shortage?

The lack of accountability definitely throws a culture of fraud free in the control environment of such organization. This would no doubt pave ways for a bigger fraudulent act that could be perpetrated by the employees. Allied to this is the question of hours worked from home, which the organization does not have control of, such that this could generate employee contingency once it is not paid for.

Word Statistics

Total # of words: **234**

Total # of unique words: **133** (57% of total text)

[\(show all unique words\)](#)

Unique words: an | organisation | allows | its | employees | to | take | home | computer | resources | such | as | notebooks | work | for | the | company | from | home. | however | no | internal | control | procedures | asset | register | tags | and | sign | off | in | have | been | put | place | regulate | outings | incoming | of | assets. | nobody | could | be | held | responsible | that | are | inexistent | one | is | unable | account | has | taken | who | effectively | one. | effect | dismissed | had | their | possession | computers | were | unaccounted | for. | would | you | ask | return | equipment | time | absolute | shortage. | lack | accountability | definitely | throws | a | culture | fraud | free | environment | organisation. | this | doubt | pave | ways | bigger | fraudulent | act | perpetrated | by | employees. | allied | question | hours | worked | which | does | not | generate | employee | contingency | once | it | paid | sort | implies | misappropriation | final | analysis | promoted | inventory | count | fixed | assets | accounting | balances | adjusted | write | non | located | asset. | certainly | if | there | rigid | prevent | narrated | anomaly | prevented | loss

Total # of repeat words: **101** (43% of total text)

[\(show all repeat words\)](#)

an(2) | organisation(3) | employees(2) | to(8) | home(3) | computer(2) | such(4) | as(3) | notebooks(2) | for(5) | the(18) | company(2) | from(2) | no(2) | internal(2) | control(4) | procedures(2) | asset(2) | and(5) | sign(2) | off(2) | in(6) | have(3) | been(2) | of(12) | assets.(3) | could(3) | be(2) | that(6) | is(3) | has(2) | who(2) | were(3) | for.(2) | would(3) | a(2) | fraud(2) | this(4) | not(2) | it(2)

Average # of words per sentence: **21**

Total # of sentences: **11**

CD03 – Breach of the Fiscal Incentives

In the third scenario, an internal auditor perceived a fraud in which some fictitious sales were made to some non-existing companies which were also created fictitiously (fantasies companies) owned by allies of the top management who are located in the states where there are fiscal incentives. These companies bought products with a reduced sales tax thus, giving great margins to them in the moment of resale. This situation generated a high tax contingency

to the selling company which nearly brought the company to closing its doors. The main problems observed in this organization where:

- a) Fragility of the internal control systems;
- b) The non-existence of the fiscal policy of know-you-customer;
- c) Lack of a compliance program for the invoicing systems;
- d) Lack of supervision and monitoring procedures for the operations;
- e) Lack of complainant channel for employees who do not want to partake in the process to whistleblowing his/her discontentment.

Word Statistics

Total # of words: **196**

Total # of unique words: **119** (61% of total text)

[\(show all unique words\)](#)

Unique words: an | internal | auditor | perceived | a | fraud | in | which | some | fictitious | sales | were | made | to | non | existing | companies | also | created | fictitiously | fantasies | owned | by | allies | of | the | top | management | who | are | located | states | where | there | fiscal | incentives. | these | bought | products | with | reduced | tax | thus | giving | great | margins | them | moment | resale. | this | situation | generated | high | contingency | selling | company | nearly | brought | close | its | doors. | main | problems | observed | organisation | fragility | control | systems | b | the | existence | policy | know | you | customer | c | lack | compliance | programme | for | invoicing | d | supervision | and | monitoring | procedures | operations | e | complainant | channel | employees | do | not | want | partake | process | whistleblowing | his/her | discontentment. | overall | is | misappropriation | assets | corruption | case | particularly | involvement | outsiders. | through | would | have | been | able | mitigate | risks | prevent | from | flaws | controls.

Total # of repeat words: **77** (39% of total text)

[\(show all repeat words\)](#)

internal(3) | perceived(2) | a(7) | fraud(3) | in(7) | which(3) | some(2) | sales(2) | were(2) | to(7) | non(2) | companies(3) | also(2) | of(11) | the(14) | who(2) | are(2) | where(2) | there(2) | fiscal(2) | with(2) | tax(2) | thus(2) | this(3) | company(2) | its(2) | organisation(2) | systems(2) | lack(3) | compliance(2) | programme(2) | for(3) | and(3)

Average # of words per sentence: **33**

Total # of sentences: **6**

CD04 – Abuse of Accounting Adjustments and Provisions

In the fourth scenario a very large organization in the packaging sector adopted a governance policy and the best practices which define all operations, tasks and responsibilities very clearly for the controls of clients and suppliers. Still with the policies being very rigid certain employees were able to frustrate the internal control procedures relating to the collections by cultivating unnecessary backlog that goes out of control and diverting the monies of the organization through accounting adjustments and subsequent provisions.

All payments in checks and very few ones in cash species where diverted to fictitious accounts in the bank accounts of the cronies for a certain period. The schemes functioned through adjustments in the transitory accounts or better say those clients lodged payments in checks and monies and the like values were thrown to the transitory accounts pending reconciliation and adequate bookkeeping.

Thus, as a result of the excess volume of such transactions that eventually create backlogs, there was a provoked volume of past due which permitted the employees who acted fraudulent to perform the adjustments in the accounting balances in order to suit their objectives. As time passes the fraudulent scheme was discovered. These employees had excessive access privileges to update accounting balances. In itself, the fraud implies misappropriation of assets and theft of cash and monies belonging to the employer. As a response, a severe penalty was imposed on the accounting analyst, the coordinators, a manager, and a director who were dismissed.

Word StatisticsTotal # of words: **382**Total # of unique words: **200** (52% of total text)[\(show all unique words\)](#)

Unique words: a | very | large | organisation | in | the | packaging | sector | adopted | governance | policy | and | best | practices | which | define | all | operations | tasks | responsibilities | clearly | for | controls | of | clients | suppliers. | still | with | policies | being | rigid | certain | employees | were | able | to | frustrate | internal | control | procedures | relating | collections | by | diverting | monies | through | accounting | adjustments. | payments | checks | few | ones | cash | during | period | where | diverted | fictitious | accounts | bank | allied. | schemes | functioned | adjustments | transitory | or | better | say | those | lodged | like | values | thrown | pending | reconciliation | adequate | bookkeeping. | thus | as | result | excess | volume | such | transactions | there | was | provoked | past | due | permitted | who | acted | fraudulent | perform | balances | order | suit | their | objectives. | time | passes | scheme | discovered. | these | had | excessive | access | privileges | update | balances. | itself | fraud | implies | misappropriation | assets | theft | belonging | employer. | response | severe | penalty | imposed | on | analyst | coordinators | manager | director | dismissed. | this | case | one | would | that | decentralised | unit | clear | opportunity | installed | misappropriate | assets. | mitigation | risk | compliance | rules | ought | prevent | fraud. | point | be | corrected | is | use | accounting. | more | sophisticated | systems | it | possible | generate | alerts | management | monitoring | procedures. | avoid | recording | post | directly | into | clients | reconciliation. | parameters | bookkeeping | eliminate | backlogs | could | perpetrated. | same | whistleblowers | inform | act | complainants | channels | raise | alarm. | put | stop | practice | groups | pave | way | either | erased | monitored | periodically | some | them | credit | notes | debit | accounts.

Total # of repeat words: **182** (48% of total text)[Summary of all repeat words\)](#)

organisation(3) | in(13) | which(2) | all(3) | for(5) | of(15) | clients(2) | with(4) | certain(2) | employees(3) | were(5) | to(15) | procedures(2) | relating(2) | monies(4) | through(3) | accounting(5) | payments(2) | checks(2) | cash(3) | accounts(8) | adjustments(2) | transitory(5) | or(4) | say(2) | pending(2) | as(4) | volume(2) | such(2) | was(4) | who(2) | fraudulent(2) | perform(2) | order(2) | their(2) | fraud(3) | theft(2) | response(2) | this(2) | would(3) | that(4) | be(2) | is(2) | systems(2) | directly(2) | could(2) | notes(2)

CD05 – Undue Use of Petty Cash

In the fifth scenario, a cashier of an SME sees an avenue of using dormant money in his hand to use it for personal expenditures. The internal audit performs the cash count periodically, but on a spot check it was observed that some monies were missing from the total sum that should be held in the safe. The Cashier claimed he took the money for personal use and intends to return the sum shortly. He also claimed he was used to using the money for more than five years like that and had always returned it without any account of reimbursement. He felt he did not see anything wrong in that as he did not steal that company's money since he was going to return it. Absolutely, the sums have been used by the Cashier for a good length of time without been questioned and had seen it as a shareable property.

Word StatisticsTotal # of words: **193**Total # of unique words: **111** (58% of total text)[\(show all unique words\)](#)

Unique words: a | cashier | of | an | sme | sees | avenue | using | dormant | money | in | his | hand | to | use | it | for | personal | expenditures. | the | internal | audit | performs | cash | count | periodically | but | on | spot | check | was | observed | that | some | monies | were | missing | from | total | sum | should | be | held | safe. | claimed | he | took | and | intends | return | shortly. | also | used | more | than | five | years | like | had | always | returned | without | any | account | reimbursement. | felt | did | not | see | anything | wrong | as | steal | companys | since | going | it. | ignorance | effective | control | culture | petty | book | might | have | influenced | misappropriation | asset | sme. | absolutely | sums | been | by | good | length | time | questioned | seen | shareable | property. | question | does | go | how | much | has | expenditure | really | safe | when | needed.

Total # of repeat words: **82** (42% of total text)[Summary of all repeat words\)](#)

a(4) | cashier(3) | of(8) | an(2) | using(2) | money(5) | in(3) | to(5) | use(2) | it(4) | for(5) | personal(3) | the(16) | internal(2) | cash(2) | was(3) | that(5) | sum(2) | claimed(2)

CD06 – Abuse of Powers of Duality Board of Director

In the sixth scenario, a board member who also acts in the higher echelon of the organization of one of the most 500 fortune companies of Brazil as a CEO has overused his powers. As a duality board member and also an executive, he had the opportunity and utmost authorizing access powers to take certain decisions on behalf of whole members and at the end just asks his colleagues on board to append their signatures in the extraordinary general meeting when they meet. By doing this, he pressurizes his colleagues to agree with all the decisions he takes *ad referendum* without they thoroughly having time to see their implications. He is used to increasing the board member compensations even before it is deliberated in extraordinary general meetings. Evidently, the perception of the absolute powers given him has allowed him to authorize fund transfer to branches in tax haven such as Cayman Island and Uruguay, make corrections in the budgets, change the external auditor to his taste and take other strategic decisions that should be taken jointly with the board members. The act perpetrated by the CEO implies corruption of other board members who knowingly or unknowingly are partaking in his act of misappropriation of assets.

Word Statistics

Total # of words: **255**

Total # of unique words: **146** (57% of total text)

[\(show all unique words\)](#)

Unique words: a | board | member | who | also | acts | in | the | higher | echelon | of | organisation | one | most | 500 | fortune | companies | brazil | as | ceo | has | overused | his | powers. | and | an | executive | he | had | opportunity | utmost | authorising | access | powers | to | take | certain | decisions | on | behalf | whole | members | at | end | just | asks | colleagues | append | their | signatures | extraordinary | general | meeting | when | they | meet. | by | doing | this | pressurises | agree | with | all | takes | ad | referendum | without | thoroughly | having | time | see | implications. | is | used | increasing | compensations | even | before | it | deliberated | meetings | evidently | perception | absolute | given | him | allowed | authorise | fund | transfer | branches | tax | haven | like | cayman | island | make | corrections | budgets | change | external | auditor | taste | other | strategic | that | should | be | taken | jointly | members. | act | perpetrated | implies | corruption | knowingly | or | unknowingly | are | partaking | misappropriation | assets. | question | does | go | what | bad | example | laid | since | subordinates | seeing | attitude | concerning | abuse | would | have | impetus | any | fraud | if | employee | under | overruling | necessary | procedures

Total # of repeat words: **109** (43% of total text)

[\(Summary of all repeat words\)](#)

board(7) | member(3) | who(2) | as(2) | ceo(2) | has(2) | his(8) | powers.(2) | and(5) | he(7) | had(2) | powers(2) | to(9) | take(2) | decisions(4) | on(2) | members(2) | colleagues(2) | their(2) | extraordinary(2) | general(2) | they(2) | by(3) | with(2) | takes(2) | is(2) | him(3) | other(2) | members.(2) | act(3) | perpetrated(2) | implies(2) | corruption(2)

CD07 – Abuse of Powers of Financial Controller

In the seventh scenario, the headquarters of an organisation worked with corporate financing whereby the subsidiaries are funded with lower interest rates when loans are needed and units which are financially distressed are attached higher interest rates that are agreed upon in view of synergy for the group on consolidation. The unit in question produces animal feeds for cows, cats and dogs, and commercializes it in the national market. In this scenario, the representative who is the Financial Controller periodically manipulates earnings for the unit for self-benefit through the adjustments of the stocks in order to portray a good financial standing so that it does not pay the said higher interest and also gain bonus. The unit *per se* is a small one and not very lucrative considering previous results but very important strategically to the group in Brazil. As a pressure from the head office grows and with the intent of complying with targets forced the units financial controller to perpetrate fraud specifically by adjusting the book value of the components of the raw materials in the stock ledger for the

production of the animal feeds and with the authorizing powers he is able to disguise it during periodic cyclical count of the stocks. Additionally, as he promotes adjustment for the quantities received on one side on the other side he enhances fictitious supplies from his cronies for the raw materials of which invoices are paid to agreed account when due to the supplier without the effective supplies. The fraud was only discovered when the controller died and another controller was hired to substitute de deceased. This act perpetrated by the financial controller implies misappropriation of assets and corruption of outsiders in relation to fictitious supplies.

Word Statistics

Total # of words: **281**

Total # of unique words: **159** (57% of total text)

([show all unique words](#))

Unique words: the | headquarters | of | an | organisation | worked | with | corporate | financing | whereby | subsidiaries | are | funded | lower | interest | rates | when | loans | needed | and | units | which | financially | distressed | attached | higher | that | agreed | upon | in | view | synergy | for | group | on | consolidation. | unit | question | produces | animal | feeds | cows | cats | dogs | commercialises | it | national | market. | this | scenario | representative | who | is | financial | controller | periodically | manipulates | earnings | self | benefit | through | adjustments | stocks | order | to | portray | a | good | standing | so | does | not | pay | said | also | gain | bonus. | per | se | small | one | very | lucrative | considering | previous | results | but | important | strategically | brazil. | as | pressure | from | head | office | intent | complying | targets | forced | perpetrate | fraud | specifically | by | adjusting | book | value | components | raw | materials | stock | ledger | production | since | has | authorising | powers | he | able | disguise | during | periodic | cyclical | count | stocks. | additionally | promotes | adjustment | quantities | received | side | other | enhances | fictitious | supplies | his | allies | invoices | paid | account | due | supplier. | was | only | discovered | died | another | hired | substitute | de | deceased. | act | perpetrated | implies | misappropriation | assets | corruption | outsiders | relation | supplies.

Total # of repeat words: **122** (43% of total text)

([show all repeat words](#))

the(32) | of(11) | with(4) | are(6) | interest(3) | rates(2) | when(3) | and(9) | units(2) | which(2) | higher(2) | that(2) | agreed(2) | in(8) | for(7) | group(2) | on(3) | unit(3) | animal(2) | feeds(2) | it(3) | this(2) | is(3) | financial(4) | controller(5) | to(8) | a(3) | not(2) | one(2) | very(2) | as(2) | from(2) | fraud(2) | by(2) | raw(2) | materials(2) | he(3) | side(2) | fictitious(2) | was(2)

Average # of words per sentence: **35**

Discussion

The situation of fraud and corruption appears to be alarming as a simple group of 10 MBA students of which 7 have been drawn showed significant cases of frauds and corruption.

US01 – Patterns of Similarity of Frauds Worldwide

Taking a quick glance at the case of *Petrobras* that went into notoriety recently, particularly because of the involvement of the incumbent government, the previous two governments of 4 years each and the main construction companies and their executives, it is not gain saying that public officers help to corrode the purse of the populace if vigilance is not put into place. So, the cases presented in this study borrowed a culture from this precedence.

Based on expert opinion from around the world, the Corruption Perceptions Index measures the perceived levels of public sector corruption worldwide, and it paints an alarming picture. Not even one single country gets a perfect score and more than two-thirds score below 50, on a scale from 0 (highly corrupt) to 100 (TI, 2014).

US02 – Model of Fraud Octagon

Overall, the reflection upon fraud and corruption discussed till now makes one propose the Model of Fraud Octagon as shown in Figure 4. This is as an emerging result of the analysis

of the codes generated by the cases of frauds summed up in the categories and the units of significance that could be derived from the model.

The goal of Fraud Octagon is to help management to understand the needs of mitigating controls in the business environment and to put compliance practices in place to make them as efficiently as possible. Internal Controls on Pressure, Opportunity, Sycophant and Lawbreaker are strategic that keep monitoring procedures and more general enterprise planning in synchronization. The reasons of Rationalization must be questioned taking the strategic value proposition that compensates deliverables. Treatment of Arrogance helps one put money and other assets within the limits of segregation of functions that will do the most good to the business, while risk of Greed and criminal mind among corporate officers and executives may reflect the enterprise's aversion to risk and generally emphasize the mission statement that would not voraciously benefit increased performance without limit. Thus, giving example from the business top management as goal congruence while monitoring and implementing efforts, provide measures for success and continuous improvement.

Figure 4 – Fraud Octagon

US03 – Stringent Control Measures to Mitigate Fraud

Will this sustain, one would ask? The society is yearning for less corruption, if it cannot be totally eliminated in the organisations, and then there is a quick need for stringent measures to reduce them to a more bearable level. They have seen that this corrodes all the wealth they have suffered to help mould.

Observe that some organisations are already laying examples by taking the bull by the horns. They are charging less aggressively their employees so that malicious earnings management are avoided by them. Effectively, those who can work from home have bonuses to take sporadic vacations and could travel to places chosen by them with everything paid for including their families. What looks very impressive in this trend is Switzerland collaborating with a non-boundary approach to curbing corruption, in putting culprit from all parts of the world into jails.

In regard to the first scenario it is characterised by corruption that favours the management in view of maintenance of HR budget for not paying overtime. Apparently the manager tries to hide his inefficiency of not adequately managing the hours budgeted for some tasks under this unlawful shutting down of employee register.

In regard to the second scenario this sort of fraud implies misappropriation of assets. In order to put adequate practice in place, at the final analysis, the organization promoted an

inventory count of the fixed assets and the accounting balances were adjusted for write-off of the non-located asset. Certainly, if there were rigid internal control procedures to prevent the narrated anomaly it would have prevented the loss of assets.

In regard to the third scenario there is a perceived misappropriation of assets and also corruption in this case of fraud particularly with the involvement of the outsiders.

Thus, through a compliance program, the organization would have been able to mitigate its risks and prevent fraud from flaws in internal controls.

In regard to the forth scenario it is characterised by misappropriation of assets. In this case, one would say that a decentralized unit with clear opportunity for fraud was installed to misappropriate assets before they are moved to other appropriate accounts. A mitigation of risk of theft of cash with the compliance rules ought to prevent the fraud.

A point that would be corrected is the use of accounting procedures relating to transitory accounting. With the more sophisticated systems it is possible to generate the systems of alerts for the management to perform their monitoring procedures. Or avoid recording in the transitory accounts and post directly into the clients' accounts pending reconciliation. Directly, certain parameters for bookkeeping would eliminate backlogs that could be perpetrated. In this same organization, whistleblowers could inform the act through the complainant's channels and raise the alarm. In order to put a stop to such a practice as a response, all accounts or groups of accounts that pave way for fraud were either erased or monitored periodically, some of them were Credit Notes, Debit Notes, and transitory accounts.

In regard to the fifth scenario it is characterised by misappropriation of assets. The ignorance of effective internal control culture of petty cash book might have influenced the undue use of the cash that should be replenished in a periodic basis in the SME's account.

The question does go how much has the Cashier used for personal expenditure, for how long, and has the money been really returned to the safe when needed?

In regard to the sixth scenario it is characterised by misappropriation of assets and corruption in as much as internal control procedures laid down by the same management is violated by him by luring board members to arbitrarily authorise transactions. It should be observed that if the compliance rules were stringent, not even the CEO would break it lest an alert would be raised through complainant channel and lastly the internal auditors report.

The question does go, what a bad example he had laid since his subordinates are seeing the decisions he takes and his attitude concerning abuse of powers. Would he have the impetus to question any act of fraud if perpetrated by the employee under him since his overruling of necessary procedures implies in corruption of the board members?

The last but not the least scenario, the seventh is characterised by misappropriation of assets and corruption. The absolute powers held by the financial controllers enabled him to perpetrate the fraud and also conceal it until deceased.

In effect, internal controls systems, tax contingencies, hours worked, cash and monies and alike have been involved in all the scenarios of fraud that have been analysed and are predominately misappropriation of assets with a case of corruption.

Overall, one would observe the common words such as: Internal Controls, authorising, contingency and procedures among others showed in Figure 5 that express the commonality in the words which represent the bone of contention in the similarity of the patterns of fraud in the scenarios described in this study.

Figure 5 – Common Words Description in Similarity of the Patterns of Fraud

The World Bank recently issued a report detailing the results of its investigations into allegations of fraud and corruption in Bank-financed projects. These investigations, conducted by the Bank's Department of Institutional Integrity, revealed that the schemes devised by corrupt actors - such as procurement fraud, collusion, kickbacks and bribes - are broadly similar whether in Africa, Asia, Europe, Latin America, or the Middle East (World Bank, 2014).

Thus, the similarity of the patterns of frauds in the environments described give us a hope that policies could be implemented to mitigate the risk of such frauds and this could be propagated very evenly.

US04 – Red Flags

Wells (1997) stresses that it is possible to identify some warning signals, or red flags, that indicate the existence of a fraudulent environment. According to Murcia and Borba (2007), the red flags are danger signs that aim to alert independent auditors of the possible occurrence of fraud.

Upon further analysing the patterns shown in the scenarios, there is the likeliness of one raising a suspicion that something must be fishing if the red flags were checked.

Even though the red flags are more commonly perceived as a result of frauds of financial statement through trend and evolutionary analysis, basically tied to the results from the analysis of quantitative figures, a qualitative analysis of the red flags could expose another perspective and food for thought. Thus, qualitatively one observes a missing link that could be likened to a red flag when flaws in internal control were identified as a result of human intervention which seems to be consistent.

For instance, taking a look at the forth scenario where adjustments in the transitory accounts were taken for granted, red flags that would alert stakeholders could be that which is derived from the eventually and artificially created backlogs, that was a provoked volume of past due which permitted the employees who acted fraudulent to perform the adjustments in

the accounting balances in order to suit their objectives. Naturally, in the accounting environment, the lack of orderliness with adequate structured code of accounts, lack of tidiness, good arrangement and filing of accounting documents could be likened to the intent of fraud, particularly the environment that enhances the reuse of already treated documents in subsequent bookkeeping entries.

Conclusion

Recently white-collar crimes have been gaining the attention of Brazilian society, in both the public and private spheres. This study has examined the patterns of the similarity of corporate frauds in the Brazilian scenario. For these, it used written scenarios of the frauds experienced from workplace.

Brazil a BRIC, the largest economy in South America and one of the largest economies in the World. On the other hand, the Brazilian Market is characterized by low enforcement, incentives for manipulation of financial statements due to tax influence, an unstable financial market and poor governance standards where a great variability of disclosure level is expected. For these reasons, Brazil represents a unique scenario for the examination of corporate frauds.

The similarity of corporate fraud is not farfetched in order to have information base that is necessary to guide appropriate anti-fraud policy and also maintain appropriate compliance programme. One can learn from the lessons of fraud publicised by our neighbour after all, we are yet to see models that is totally new without having origin from the old ones.

The scenarios of frauds have their sources from flaws in internal controls and weaknesses in the monitoring procedures, implemented in the organisations. If the accounting information management and policies were adequately implemented and oversight streamlined, the frauds would be reduced.

The Patterns of Similarity of frauds worldwide, Model of Fraud Octagon and Stringent measures to mitigate fraud are units of significance carved out as sub categories as a drop of water in this stream of reflections that could be manifested from more detailed analysis initialised by this study, save for the fact that the challenge has been thrown for more archival researches that analyse patterns of frauds be brought to light.

In a nutshell, this study concludes for the scenarios holding similarity in frauds of misappropriation of assets plus monetary theft and corruption, however, no similarity was narrated in regard to frauds of financial statement.

Finally, conclusions from this study ought to be considered in conjunction with the limitations therein, in other words, the students were from one university even though executives, but the scenarios narrated might have left certain vital information out since they were replicated purposefully in the classroom. What we lose as a result of few cases, we gain as been able to unite several scenarios in academia which is uncommon.

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