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## FORENSIC-SERVICE AS A GUARANTEE OF ECONOMIC SECURITY OF THE ENTERPRISE

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The article substantiates that corporate fraud is a constant threat to any business that cannot be predicted and completely eradicated. The essence of the concept of “corporate fraud” in a narrow and broad sense is considered. It is substantiated that the most complete interpretation of the concept of “corporate fraud” is determined by the International Standards on Auditing ISA 240. The key risks of provoking corporate fraud are identified. The list of the most common among corporate fraud and offenses is offered. Emphasis is placed on methods and procedures for combating corporate fraud. It is emphasized that in foreign practice, among the tools for combating corporate fraud is widespread “forensic”. It is stated that in Ukraine “forensic” is only at the stage of formation, since the pros and cons of the expediency of its introduction in domestic practice significantly slow its popularization. It is proved that the proposals of scientists for the introduction of concepts “forensic-audit” and “forensic investigations” do not allow to fully disclosing the meaningful component of the term “forensic”, which also complicates its understanding by business owners. The definitions of the concept of “forensic” are analyzed. The author defines the concept of “forensic-service” by ideographic approach as a service support business aimed at preventing the emergence of corporate fraud risks, detection of violations by employees and company management of the current legislation, falsification of accounting and tax reporting, theft or misappropriation of assets, corruption, corruption damages from them and the development of an acceptable mechanism for damages and asset recovery. The “forensic-service” services, their importance in ensuring the economic security of enterprises are considered. A brief description of “forensic-service” services is outlined. The expediency of distribution in domestic practice of “forensic-service” as a pledge of economic security of business is substantiated.

**Keywords:** fraud, corporate fraud, forensics, unexpected verification, legendary verification, internal investigation.

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### *Introduction and formulation of the problem*

Corporate fraud is a constant threat to any business that cannot be predicted and completely eradicated. According to analysts of the “Big Four” of auditors in 2019, corporate fraud is ranked third in the ranking of the most serious threats to business. Its spread is the result of illusions of business owners who are convinced that by exercising total control over employees, changing tactics and strategies of business management, the company will be able to avoid the fate of the victim of fraudulent actions. But, unfortunately, these are just illusions that have nothing to do with practice [9].

Corporate fraud can be victimized by virtually

any enterprise, regardless of management, type of activity and country of residence, due to the internationality and variability of the fraudulent practices that employees are involved in. Therefore, it becomes apparent that taking fraudulent measures at the enterprise is one of the key tasks of the business owner [9].

In foreign practice, the use of forensic has become widespread in the fight against corporate fraud. However, in Ukraine it is only at the stage of its formation, since the pros and cons of the expediency of its introduction in domestic practice significantly slow its popularization. Let’s dwell on the study of his distinguishing features as a tool for

ensuring the economic security of a business in order to convince him of his need.

**The purpose of the article**

The purpose of the article is a comprehensive study of the distinctive features of forensics as a tool for ensuring the economic security of a business.

**Analysis of literary sources**

Many cohorts of scientists and practitioners are working on economic security issues as corporate fraud in Ukrainian companies continues to be one of the most topical issues. The works of such scientists as Dolbniev, D., Kovbel, A., Korystin O., Malskyi O., Nekrasov V., Polishchuk S., Royik O., Semets A., Solomina H., Cherniavskyi S., Shevtsov I. and others deserve special attention among the many developments. However, despite a wealth of research on corporate fraud prevention and investigation, issues regarding the introduction of a business security tool in the corporate sector, such as forensic, remain open and have not been fully explored, which still requires further research.

**Presenting the main material of research**

Corporate fraud is quite “comfortable” in Ukrainian business. Annual reports examining its changes show a growing trend. However, unfortunately, most business owners are convinced that the risk of fraud against their company is low, and the cost of organizing preventative measures will cost the business more than the potential loss from fraud. That is why they pay attention to the corporate fraud growth indicators only after revealing the blatant facts or the significant damage caused by them.

According to the Article 190 of the Criminal Code of Ukraine Fraud under is the seizure of another’s property or the acquisition of the right to property by deception or abuse of trust of citizens. However, in fact, the concept of “fraud” is much broader and includes not only abuse of trust of citizens but also abuse of confidence of employers. Therefore, the most complete concept of “fraud” is covered by ISA 240 International Auditing Standards, by which fraud are the intentional act of one or more management, staff, employees, or third parties to fraudulently or unlawfully benefit [7].

The most common types of corporate fraud so

far remain: failure to declare assets; illegal enrichment; forgery of documents and primary documentation; misrepresentation of financial statements; use of rollback system; the use of computer crime technologies; scams with investments, purchase of goods and services that do not exist; providing charitable assistance; various payments to formally unrelated companies, etc.

The key risks that provoke corporate fraud are recognized (Fig. 1).

*Source: author’s vision*

Among the methods and procedures for combating corporate fraud, the most popular are:

- 1) unexpected inspection of the enterprise is effective in terms of obtaining prompt information on the state of affairs at the enterprise;
- 2) legendary verification is effective in terms of obtaining complete and reliable information directly from the source organically (during direct contact with employees of the enterprise);
- 3) an internal investigation into fraud that has already occurred - effective in terms of interviewing information;
- 4) physical methods of protection and control – effective from the point of view of corporate fraud bias;
- 5) OSINT / HUMINT – effective from the point of view of opening the information from the open source (interviewing, document analysis and correspondence) [1].

However, none of the listed corporate fraud practices and procedures the fight against corporate fraud is not complex, which hinders the expected results from their implementation.

In foreign practice, such a tool as forensic has become widely used among corporate fraud tools. The term “forensic” comes from the Latin forensic – forum or public discussion. The notion of “forensic” has recently got into the professional circulation of domestic business, and therefore, in its interpretation no common approaches have been formed so far (Table 1):

Based on the statements of the concept “forensics” presented in table 1, we conclude that some scholars emphasize the need to introduce in

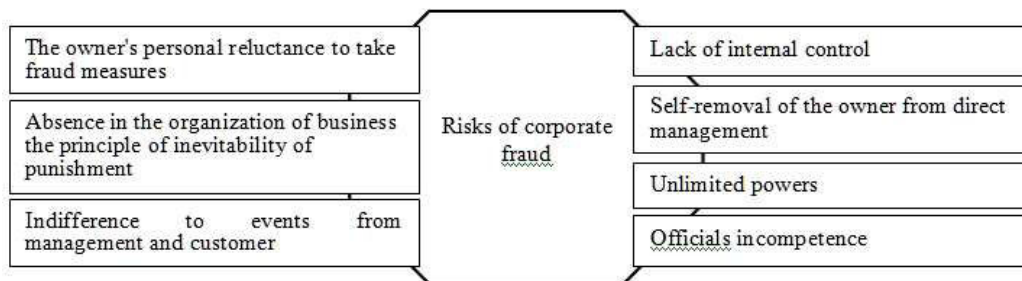


Fig. 1. Key risks of corporate fraud provoking

Table 1

Definitions of the notion of “Forensic

Author	The substantive component
Klymko T.[3]	Forensic is an effective tool to minimize the risks of fraudulent or deliberate fraud
Shevtsov I. [14]	Forensic is a comprehensive study of the financial and economic activity of an economic entity, the purpose of which is to identify various facts of fraud, financial fraud of other misconduct, both by the management apparatus and by other employees, to create a system of measures to minimize them
Royik O. [9]	Forensic is an independent financial investigation conducted both inside and outside the company to identify financial risks or evidence of fraudulent activity by company employees
Solomina H. [11]	Forensic is a financial investigation service, based on the work performed, must document all the activities performed in the service delivery process, as well as the results of these processes and the proposed recommendations
Stivenson H. [15]	Forensic is an activity aimed at identifying, analyzing and resolving situations, where there are differences between the parties on issues that entail significant economic risks
Cherniavskiy S., Korystin O, Nekrasov V. [13]	Forensic is a service to identify and reduce the risks of fraud, illegal activities and unethical conduct in the business sector
Vasudevan S. [14]	Forensic provides an opinion on the legality of a company's operations, using value for money (VFM) audit methods, regularity audit, investigative audit (investigative audit) and financial audit (financial audit)
Semets A. [10]	Forensic audit is the process of studying the reporting and business operations of the company with the purpose of developing measures to respond, manage and prevent fraud based on expert judgment about the presence of the facts: violation of the employees by the employees and the management of the company of the current legislation; falsification of accounting and tax reporting; cases of theft or misappropriation of assets; corruption and abuse of power; fraud risk

the domestic practice of generalizing the concepts of “forensic audit”, “forensic investigation” and the like. However, we believe it is worthwhile to disagree with these statements, as forensic audit and forensic investigation provide for a retrospective study of the companies’ activities. Forensic also envisages taking measures to prevent corporate fraud. Therefore, interpreting “forensic” as “forensic-audit” and “forensic-investigation” does not allow to fully disclosing its meaningful component, which complicates its understanding by business owners.

Let us consider its service support of business

to form a complete idea of “forensic” (Fig. 2).

First of all, let’s start with the aim of “forensic”. The purpose of forensic is to provide a complete set of corporate fraud prevention, detection and investigation services. Therefore, forensic services can be roughly divided into two groups: corporate fraud prevention and investigation services.

The first group of services includes taking measures to counteract money laundering (“rollbacks”), bribery, corruption and integrity control with business partners, non-disclosure of trade secrets and more.

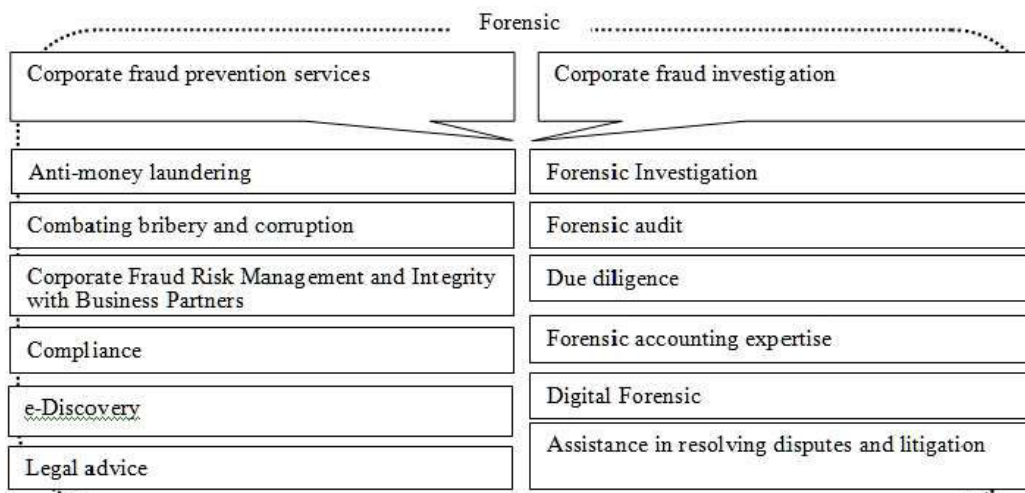


Fig. 2. Service support of business by forensic. Source: author’s vision

Rolling back allows a supplier to unreasonably inflate prices, “accumulate” receivables, or deliver substandard goods and services. This peculiarity of the post-Soviet countries, especially Ukraine, led to the emergence of entrepreneurs whose entire business is built on one form or another of bribery by employees of the customer companies [8].

The second most prevalent (but not possible loss for the company) fraud type is deferred goods delivery to deliberately unreliable buyers. The goods are released by a real firm to a certain firm of the same day, which deliberately delays payment and thus is “credited” at the expense of the supplier [3, p. 254].<sup>3</sup> Therefore, corporate fraud forensic services are, firstly and foremost, aimed at building an internal control system, combating intra-corporate feeds, as well as organizing automated screening of business partners’ portfolios and identifying potential indicators of their integrity [6].

Compliance services also deserve special attention. The concept of “compliance” (from English “compliance” – consent, conformity, derived from the verb to comply) is first used in the US Corrupt Practices Abroad Act and means a system to protect business and its shareholders from external corruption, abuse and inefficient management of the organization by its top executives, as well as the ability to act in accordance with instructions, rules and special requirements [2].

“Compliance” in Ukraine is a relatively new trend. Although Ukrainian anti-corruption legislation gives every reason to pay due attention to compliance, today it is only taken seriously by subsidiaries of the transnational group covered by FCPA / UKBA. Practice shows that compliance – the company documents, even if they exist, are often the most common guide for all employees, including workers [3, p. 254]. Forensic also envisages the provision of compliance documents separately for each employee category.

With Ukraine’s accession to the Digital Single Market Strategy, “digitization” – the digitization of business processes is being updated. So, with the changes in the business environment, forensic involves the provision and upgrading of existing cyber security tools, as well as the development and implementation of new ones, providing strategic advice and conducting the audit of the risks associated with the digital transformation of companies, enabling rapid and efficient adaptation of internal audit processes and procedures with a focus on digital technology and data analytics [5].

Forensic legal services are also worth paying attention to the legal checks of compliance of employees with legislative or other normative act, principles and standards, providing legal advice on the development of internal control system,

maximally adapted to the format of financial abuse risk management and neutralizing its consequences.

The second group of services includes taking measures to investigate corporate fraud, and first of all, financial investigation and corporate intelligence services, which ensure not only the full detection of the facts of economic crimes and punishment of violators, but also the prevention of their re-commissioning in the future. Financial investigation, first of all, is a specialized area of forensic aimed at conducting an independent assessment of the risks associated with the possible non-compliance with the law and cases of corporate fraud. At the same time, corporate intelligence, as a specialized area of forensic, aims at comprehensive research on the business reputation and integrity of contractors of companies [4].

Forensic services play a significant role in the of Due Diligence Services, as they are the key to information and analytical support for the formation of an objective view of investment objects and the reliability of innovative projects, their persistence with regard to expected performance under the influence of third-party random factors (risks).

Forensic audit services, through the use of value for money (VFM) audit, regularity audit, investigative audit, and financial audit, provide experts with opinions on the legality of the company’s operations and corporate facts damage caused [14]. However, the lack of probative force of the forensic results in court (according to the Criminal Procedure Code of Ukraine – the Criminal Code of Ukraine) and the need for their legalization, require forensic accounting, obtaining of witnesses and other procedural mechanisms, which are also included in the list of forensic services.

Forensic also provides litigation support, provides analysis of the full financial picture of the dispute, reducing uncertainty and increasing confidence in the outcome of disputes, engaging experienced professionals to obtain the best possible outcome of the case.

The forensic list above is not complete, but it provides a complete picture of its nature. Therefore, we have every reason to say that “forensic” should be considered, not as “forensic-audit” and not as “forensic-investigation”, and above all, it should be considered as “forensic-service”.

We are convinced of a complete idea of the meaningful component of the concept of “forensic-service” is possible with an ideographic approach, which emphasizes its originality and uniqueness.

Therefore, ideographically, “forensic service” should be understood as service support for business aimed at preventing the occurrence of corporate fraud risks, detection of violations by employees and company management of current legislation,

Table 2

## Distinctive features of forensic

Features	Characteristic features of the audit	Characteristic features of forensic
on purpose	belief in the reliability of the information presented in the financial statements	detecting threats or fraud, establishing perpetrators and the collection of evidence of offenses
by character	mandatory or voluntary	voluntary
by presumption	compliance with legal acts on accounting and preparation of financial statements	counter fraud
by frequency	on a regular basis	under conditions of no confidence to stakeholders
in scale	the reliability of the transactions in the financial statements	includes financial and legal aspects as well as legal and information security issues
by forms	audit	due diligence
by the method	has a clear algorithm of verification	the algorithm may differ depending on the purpose for which it is initiated

falsification of accounting and tax reporting, non-reporting cases, cases abuse of power, as well as the assessment of losses from them and the development of an acceptable mechanism for damages and asset recovery.

Hence the distinguishing features of forensic, as a service support business and the guarantee of its economic security should be recognized the following (Table 2).

Undoubtedly, forensic is a more effective tool for ensuring the economic security of businesses than conducting inspections by law enforcement or law enforcement agencies, since, in particular, unlike the intervention of law enforcement agencies, it prevents the influence of third parties on the flow of inspections and their outcome, i.e. it leaves the customer the absolute right to choose the consequences of the detected fraud [1]. However, the lack of probative force of the forensic results in the court of the Criminal Code of Ukraine complicates the possibility of their legalization, and requires other procedural mechanisms.

### Conclusions

Thus, according to the results of the conducted research, it was found that the obstacles to the spread of forensic in domestic practice were: multidimensional approaches to the interpretation of the substantive component of the concept of “forensic”; illusions of business owners who are convinced that by exercising total control over employees, changing business management tactics and strategies, the company will be able to avoid the fate of the victim of fraudulent actions; lack of legal regulation of forensic services.

In order to overcome these obstacles, we have proposed the following:

– introduction of the concept of “forensic-service” in the business environment, the author’s definition of which is offered by the ideographic approach as a service support of business, aimed at preventing the occurrence of corporate fraud risks, detection of facts of violation of the current legislation

by employees and management of the company, falsification of accounting and tax reporting, cases of theft or misuse of assets, corruption and abuse of authority, as well as the assessment of losses. Introducing this concept will allow business owners to form a more complete view of forensic and its importance in ensuring the economic security of businesses;

– amendments to the Criminal Code of Ukraine and other legislative acts on financial investigations to ensure the probative force of forensic results in court;

– at the legislative level, to reinforce the need for certification of specialists of forensic services companies.

The implementation of these measures will focus the attention of business owners not only on the dissemination of forensic services, but also on the bias of companies in the conditions of intensification of business processes digitization due to corporate fraud and the risks associated with digital information transformation.

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## ФОРЕНЗИК-СЕРВИС ЯК ЗАПОРУКА ЕКОНОМІЧНОЇ БЕЗПЕКИ ПІДПРИЄМСТВ

Ткаченко А.М., Тютченко С.М.

У статті обґрунтовано, що постійною загрозою для будь-якого бізнесу, яку не можливо спрогнозувати та абсолютно викоринити є корпоративне шахрайство. Розглянуто сутність поняття «корпоративне шахрайство» у вузькому та широкому розумінні. Обґрунтовано, що найбільш повне трактування поняття «корпоративне шахрайство» визначено Міжнародними стандартами аудиту ISA 240. Виокремлено ключові ризики прокування корпоративного шахрайства. Запропоновано перелік найбільш поширених серед корпоративного шахрайства злочинів і правопорушень. Акцентовано увагу на методах і процедурах боротьби із корпоративним шахрайством. Наголошено, що у зарубіжній практиці серед інструментів боротьби із корпоративним шахрайством широкого поширення набув «форензик». Констатовано, що в Україні «форензик» перебуває лише на стадії становлення, оскільки «за» та «проти» щодо доцільності його запровадження у вітчизняній практиці суттєво гальмують його популяризацію. Доведено, що пропозиції науковців щодо введення в обіг понять «форензик-аудит» та «форензик-розслідування» не дозволяють повноцінно розкрити змістовну складову терміну «форензик», що саме і ускладнює його розуміння власниками бізнесу. Проаналізовано дефініції поняття «форензик». Запропоновано авторське визначення поняття «форензик-сервісу» за ідеографічним підходом як сервісного супроводу бізнесу, спрямованого на упередження виникнення ризиків корпоративного шахрайства, виявлення фактів порушення співробітниками і керівництвом компанії чинного законодавства, фальсифікації бухгалтерської та податкової звітності, випадків розкрадання або неналежного використання активів, корупції й зловживання повноваженнями, а також на оцінювання збитків від них та розробку прийняттого механізму відшкодування шкоди і повернення активів. Розглянуто сервісні послуги «форензик-сервісу», їх значимість у забезпеченні економічної безпеки підприємств. Викладено коротку характеристику сервісних послуг «форензик-сервісу». Обґрунтовано доцільність поширення у вітчизняній практиці «форензик-сервісу» як запоруки економічної безпеки бізнесу.

**Ключові слова:** шахрайство, корпоративне шахрайство, форензик, форензик-сервіс, неорієнтована перевірка, легендована перевірка, внутрішнє розслідування.

## ФОРЕНЗИК-СЕРВИС КАК ЗАЛОГ ЭКОНОМИЧЕСКОЙ БЕЗОПАСНОСТИ ПРЕДПРИЯТИЙ

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В статье обосновано, что постоянной угрозой для любого бизнеса, которую невозможно спрогнозировать и абсолютно искоренить является корпоративное мошенничество. Рассмотрена сущность понятия «корпоративное мошенничество» в узком и широком смысле. Обосновано, что наиболее полное определение понятия «корпоративное мошенничество» определено Международным стандартом аудита ISA 240. Выделены ключевые риски провоцирования корпоративного мошенничества. Предложен перечень наиболее распространенных среди корпоративного мошенничества преступлений и правонарушений. Акцентировано внимание на методах и процедурах борьбы с корпоративным мошенничеством. Отмечено, что в зарубежной практике среди инструментов борьбы с корпоративным мошенничеством широкое распространение получил «форензик». Констатировано, что в Украине «форензик» находится только в стадии становления, поскольку «за» и «против» относительно целесообразности его внедрения в отечественной практике существенно тормозят его популяризацию. Доказано, что предложения ученых о введении в оборот понятий «форензик-аудит» и «форензик-расследование» не позволяют полноценно раскрыть содержательную составляющую термина «форензик», что именно и затрудняет его понимание

собственниками бизнеса. Проанализированы дефиниции понятия «форензик». Предложено авторское определение понятия «форензик-сервиса» по идеографическому подходу как сервисного сопровождения бизнеса, направленного на предупреждение возникновения рисков корпоративного мошенничества, выявления фактов нарушения сотрудниками и руководством компании действующего законодательства, фальсификации бухгалтерской и налоговой отчетности, случаев хищения или ненадлежащего использования активов, коррупции и злоупотребление полномочиями, а также на оценку ущерба от них и разработку приемлемого механизма возмещения вреда и возврата активов владельцам. Рассмотрены сервисные услуги «форензик-сервиса», их значимость в обеспечении экономической безопасности предприятий. Изложена краткая характеристика сервисных услуг «форензик-сервиса». Обоснована целесообразность распространения в отечественной практике «форензик-сервиса» как залог экономической безопасности бизнеса.

**Ключевые слова:** мошенничество, корпоративное мошенничество, форензик, форензик-сервис, неожиданная проверка, мнимому проверка, внутреннее расследование.

#### FORENSIC-SERVICE AS A GUARANTEE OF ECONOMIC SECURITY OF THE ENTERPRISE

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*The article substantiates that corporate fraud is a constant threat to any business that cannot be predicted and completely eradicated. The essence of the concept of "corporate fraud" in a narrow and broad sense is considered. It is substantiated that the most complete interpretation of the concept of "corporate fraud" is determined by the International Standards on Auditing ISA 240. The key risks of provoking corporate fraud are identified. The list of the most common among corporate fraud and offenses is offered. Emphasis is placed on methods and procedures for combating corporate fraud. It is emphasized that in foreign practice, among the tools for combating corporate fraud is widespread "forensic". It is stated that in Ukraine "forensic" is only at the stage of formation, since the pros and cons of the expediency of its introduction in domestic practice significantly slow its popularization. It is proved that the proposals of scientists for the introduction of concepts "forensic-audit" and "forensic investigations" do not allow to fully disclosing the meaningful component of the term "forensic", which also complicates its understanding by business owners. The definitions of the concept of "forensic" are analyzed. The author defines the concept of "forensic-service" by ideographic approach as a service support business aimed at preventing the emergence of corporate fraud risks, detection of violations by employees and company management of the current legislation, falsification of accounting and tax reporting, theft or misappropriation of assets, corruption, corruption damages from them and the development of an acceptable mechanism for damages and asset recovery. The "forensic-service" services, their importance in ensuring the economic security of enterprises are considered. A brief description of "forensic-service" services is outlined. The expediency of distribution in domestic practice of "forensic-service" as a pledge of economic security of business is substantiated.*

**Keywords:** fraud, corporate fraud, forensics, unexpected verification, legendary verification, internal investigation.

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