


Chapter 2

Corporate Sector Fraud: Challenges and Safety

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ABSTRACT

This chapter aims to possess a review of machine learning techniques for detection of corporate fraud in modern era. Detecting company frauds using traditional procedures is time costly as immense volume of information must be analysed. Thus, further analytical procedures should be used. Machine learning techniques are most emerging topic with great importance in field of information learning and prediction. The machine learning (ML) approach to fraud detection has received a lot of promotion in recent years and shifted business interest from rule-based fraud detection systems to ML-based solutions. Machine learning permits for making algorithms that process giant data-sets with several variables and facilitate realize these hidden correlations between user behaviors and also the probability of fallacious actions. Strength of machine learning systems compared to rule-based ones is quicker processing and less manual work. The chapter aims at machine-driven analysis of knowledge reports exploitation machine learning paradigm to spot fraudulent companies.

DOI: 10.4018/978-1-7998-4805-9.ch002

INTRODUCTION

Fraud has become the most viable threat in global economy that needs maximum attention of the forensic accountants and traditional auditors, as well as anti-graft bodies worldwide. It is indeed discovered that fraud and its various natures continuously growing in frequency and severity (Hajeka & Henriquesb, n.d.). Fraud is considered as a global phenomenon, since it has universally penetrates both the private and public sectors to the extent that no country is protected from it, although developing countries suffer the most (Mangala & Kumari, n.d.).

A corporate fraud comes in existence when a company or anyone deliberately changes and conceals sensitive information which then apparently makes it profitable. Companies use various methods to commit corporate frauds, which may include miss-information and manipulation in accounting information. The aim of falsification of financial information includes misleading accounting entries, wrong trades for inflation of profits, disclosure of price sensitive information which comes under the range of trading and showing false transactions which aims to attract more investors and lenders for funding (Gupta & Gupta, 2015).

There will be many reasons cited that firms commit such frauds like creating a lot of falsified money, making a false image of the corporate for the market situation and misguiding Governmental authorities for nonpayment. In India, the Commission on 'Prevention of Corruption', in its report, observed, "The advancement of technological and scientific development is conducive to the emergence of mass society with an oversized rank in file and small dominant elite, encouraging the expansion of monopolies, the increase of a managerial category and complicated institutional mechanisms. There's a necessity for a strict adherence to high standards of ethical behavior for even the honest functioning of the new social, political and economic processes. The report of the Vivian Satyendra Nath Bose Commission inquiring into the affairs of the Dalmia Jain cluster of firms in 1963, highlighted on however the large industries cherish frauds, falsification of accounts and record change of state for private gains and nonpayment etc(Penyelenggara, 2019).

The first self-made trial of a monetary scandal in freelance Asian country was the Mundhra Scam, within which Hon'ble Justice M.C. Chagla created bound important observations regarding the large business power Mundhra WHO needed to make associate degree industrial empire entirely out of dubious suggests that.

TYPES OF FRAUD

There are many varieties of frauds like fraudulent financial Statements, employee Fraud, vendor Fraud, customer Fraud, Investment Scams, Bankruptcy frauds and miscellaneous. a number of the common varieties of frauds are:

1. **Financial frauds** - Manipulation, falsification, alteration of accounting records, deception or intentional omission of amounts, misapplication of accounting principles, intentionally false, misleading or omitted disclosures.
2. **Misappropriation of Assets** - theft of tangible assets by internal or external parties, sale of proprietary data, inflicting improper payments.

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