APPLICATION OF ETHICAL PRINCIPLES TO FRAUD

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Abstract: Fraud continues to be an all-too-common issue in organisations around the world and can affect financial stability, stakeholder trust and organisational integrity. This research project looks into how the ethical principles are utilized in fraud prevention/detection and how integrity, transparency, accountability, ethical decision-making and whistleblowing help deter fraudulent behavior. The study adopts a conceptual research design and secondary data sources, such as academic journals, books, professional reports, and institutional publications, and document analysis and literature synthesis to analyze the relationship between ethics and fraud control. The results indicate that high levels of ethical culture, robust internal controls, ethical leadership and transparency have a significant impact on reducing the risk of fraud, whereas low levels of ethical culture have a significant impact on vulnerability to fraud. This study also provides an examination of the implications of fraud and ethical lapses, such as monetary losses, legal repercussions, and reputational harm. The study concludes that ethical principles can be valuable tools to advance organizations and society's integrity, accountability, and transparency. It suggests the development of strict codes of ethics, frequent ethics education and training, ethical leadership, and effective compliance frameworks to improve fraud prevention and restore trust by the public.

Keywords: *Ethics, Fraud Prevention, Ethical Principles, Transparency, Accountability, Whistleblowing, Organizational Integrity.*

1.0 Introduction

Ethics is a part of professional practice and organizational practice, a fundamental basis of good decision making and behavior. Ethics is the moral principle that affects people's conduct and behavior in their working lives, helping them to decide what is right and what is wrong, and what they should do and should not do, especially with regard to legal obligations and what is expected of them by the community. Companies that make ethics a part of their culture are more likely to build trust and confidence with their stakeholders, increase transparency, and promote accountability in their operations. Mintz & Morris (2020) and Boatright (2021) discuss how ethical principles such as integrity, objectivity, accountability, transparency, and professional competence are meant to guide the prevention of wrongdoing, fairness and reputation of an organization.

Fraud is an intentional act of deceit to gain a personal, financial or organisational advantage through deceit. It is the intentional misrepresentation, manipulation or failure to disclose information, which is frequently illegal, unprofessional and unethical. Financial statement fraud, embezzlement, corruption, procurement fraud and cyber fraud are all potential types of fraud. The fraudulent activities are seen to taint the integrity of institutions, financial reporting and the lack of trust among the public and stakeholders (Albrecht et al., 2019; Rezaee & Riley, 2020).

Fraud has become an issue of concern for organisations across the world, regardless of size and industry. According to the Association of Certified Fraud Examiners (ACFE, 2022), fraud expenses organizations around the world 5% of their annual revenues. In organizational settings, fraud can have a negative impact on the finances, reputations, employee morale and legal and regulatory penalties. The complexity of the business, technological development, and globalization, have led to growth in opportunities and sophistication of fraudulent business practices, making ethical business practices more important in the current times (Wulanditya et al., 2022).

The ethical approach plays a significant role in combating fraud. Ethics provides an organization with a moral compass to inform its policies, leadership decisions and employee behavior. By emphasizing the following principles – Integrity, Accountability, Transparency and Professional Competence – organizations can have systems in place that help dissuade unethical practices and increase control. Organizations can protect their assets and stakeholders from fraudulent activities, detect, prevent and combat fraud by individuals using ethical awareness and substance of organizational culture (Etim et al., 2024).

The aim of this paper is to discuss how the most important ethical values may be used to prevent and combat fraud in the organizational environment. It is to examine the theoretical and practical relationship between ethics and fraud prevention and how the professional and organisational conduct can contribute to integrity, accountability and transparency. This study aims to gain insight into the effective ways of introducing ethics to organisations to prevent fraud and promote public confidence in organisations through analysing existing literature and conceptual frameworks.

2.0 Literature Review

Fraud is known to be any deliberate deception intended to gain some unfair or illegal advantage or to harm another person. The Association of Certified Fraud Examiners (ACFE, 2022) defines fraud as "an intentional misrepresentation, concealment of material facts, or abuse of trust for oneself or for another for personal or financial gain. According to Albrecht et al. (2019) it is when someone deliberately violates rules or laws intended to deceive the stakeholders and may have adverse financial, reputational or legal consequences. Similarly, Rezaee and Riley (2020) define fraud as misleading information that is presented in financial/ organizational reports with the intention of benefiting the user or benefiting the organization. There are several types and ways of committing fraud. Financial fraud refers to the deliberate falsehoods in financial statements or misrepresentations in monetary transactions that are meant to mislead the stakeholders or the regulatory authorities, while corporate fraud is an act of misrepresentation, unethical or illegal action by a manager/executive who is involved in business with the aim of benefitting the company or the manager/executive himself or herself, with the intent of increasing such benefit (Okoye & Akenbor, 2019). With the advancement of digital technologies, cyber frauds such as identity theft, phishing, and

hacking digital financial platforms to exploit organizations or individuals have also been increasing (Wulanditya et al., 2022). Another common form of fraud is occurred when someone is in a position of trust and responsibility, and alters records or transactions to wrongfully take funds or resources provided for them (Dorminey et al., 2018).

Ethical principles play a vital role in the ethical conduct of professionals and their decisions and serve as a preventive measure in fraud. Integrity is honesty, consistency and upholding moral/legal standards and decreases the risk of deceptive practices (Mintz & Morris, 2020). In the context of auditing and accounting, and in managerial functions where impartial evaluation is important for the trust of the stakeholders, objectivity ensures that judgments and decisions are made without taking into account personal bias or outside pressure (IESBA, 2022). Professionals are held responsible for their actions and decisions, which encourages justification and acceptance for consequences of any action or decision that is unethical, and organizations with accountability have less unethical behavior, such as fraud (Boatright, 2021). Transparency is to be transparent and open in the reporting, communication and decision making process, so that the actions of an organisation can be monitored and evaluated by the stakeholders and thus reduce opportunities for unethical actions to take place (OECD, 2020). Lastly, professional competence and due care necessitates the maintenance of an appropriate knowledge, skill and diligence, which is required to discharge duties competently and not to allow an error, negligence or misconduct to allow for fraudulent activities (IESBA, 2022).

There is consistently a strong relationship found in the literature between ethical behaviour and the prevention of fraud. When the organizational culture is ethical with ethical norms and values, it has a dissuasive effect on organizational misbehavior, and this makes it more likely that employees will adhere to ethical norms and standards, and less likely that they will commit fraud. Ethical leadership also plays an important role and ethical leaders who hold people to account and establish transparency create an environment that does not tolerate dishonesty and promotes reporting of unethical behavior (Rezaee & Riley, 2020). Good ethics in financial reporting and good corporate governance promote the accuracy, reliability and accountability of reporting, thus reducing opportunities for misstatement, corruption and fraud.

The organizations that have a strong moral compass have lower rate of fraud that are more trusted by stakeholders (Albrecht et al., 2019; Wulanditya et al., 2022). Incorporating ethical issues in institutional policies, leadership and professionalism, therefore, is an effective preventive measure against fraud and builds institutional credibility.

Ethical considerations play a pivotal role in fraud prevention and detection, directly influencing and shaping good management practices in the organization. Integrity is a key expectation and a foundational principle that should be adhered to by all individuals with the aim of discouraging any form of misconduct and help drive compliance with organizational policies. Transparency and accountability in financial reporting greatly increase the difficulty in detecting fraudulent actions while ethical decision-making ensures that employees working under the ethics of their decisions are able to identify unethical actions and take appropriate action. This can be strengthened by providing training in ethics, reporting lines, support mechanisms, etc., that encourage vigilance within the organization. It is the ethical and professional duty of employees to report any fraudulent or unethical behavior they see and organizations that establish a safe environment for whistleblowing go beyond the accountability and ethics they provide for employees to help detect fraud.

The consequences for fraud and unethical behavior are felt organizationally, economically, and socially. They can cause financial losses, loss of employee morale, stop operations, and cause harm to internal systems for organizations. Fraud is a risk to the integrity of internal control systems and to the effectiveness of the internal control systems. Fraudulent practices can also be directed toward economic processes for the purpose of resource manipulation, distortion of financial information, and loss of investors' trust and thereby impact market stability. Legal considerations should also not be overlooked; anyone or organization that is caught up in fraud can be subject to regulatory measures, fines or jail time. Finally, fraud and ethics issues have the potential to cause a loss of trust and damage a company's reputation, particularly in recruiting investors or skilled employees, and it is important to have ethical practices to ensure the credibility and trust of the public. Theoretical concepts also can elucidate the moral aspects of fraud. Cressey (1953) developed the Fraud Triangle theory that states that the three factors of pressure, opportunity and rationalisation were combined to create pressure. Pressure is a push from within, from one's personal and/or professional drive/aspirations, can be caused by financial pressure or unrealistic demands for performance (Albrecht et al., 2019). Rationalization allows people to rationalise unethical behaviour and opportunity is where the weak areas within the organisational controls are or where there are gaps in the governance (Dorminey et al., 2018).

Ethical values that foster integrity, accountability and transparency help to minimise these pressures, opportunities, and rationalisation. Ethical Decision Making Theory is about the moral reasoning involved in professional behavior: the individual's ability to identify moral problems, consider options, predict outcomes, and select a response based on moral guidelines (Jones, 1991; Mintz & Morris, 2020). Employees act ethically through integrity, objectivity, transparency, accountability and professional competence in decision making, which help to prevent fraudulent activities by the employees (Etim et al., 2024). All the aforementioned theories demonstrate that ethical values are not just ideals; they can be used to stop fraud, shape the culture and governance of the organization, and affect the conduct of individuals.

3.0 Methodology

This study is a conceptual research design where information is analyzed and synthesized based on existing data instead of primary data. When studying the ethics of fraud, this will work well as the researcher can investigate existing theories, frames, and professional standards. The study is based on secondary data sources, such as academic, books, professional reports, and institutional publications, that offer information on ethical conduct, fraud prevention, and organizational governance. Analytical approach is a mixture of document analysis and literature synthesis. Document analysis is a systematic review of documents to derive information about the nature, types of fraud, ethical principles and measures of prevention. Literature synthesis involves synthesizing information from various sources to make patterns, relationships, and best practices apparent in the use of ethical principles to prevent fraud. This methodology ensures a thorough, backed-up discussion on how ethics can help limit fraudulent activities within organizational contexts.

4.0 Findings

Ethical principles have been found during the literature review to be a critical role in the prevention and mitigation of fraudulent behavior within an organization. It has been shown that companies that have ethical policies with integrity, accountability, transparency, and

professional competence have much lower rates of fraud. Albrecht et al. (2019) highlight that ethical awareness offers a moral compass for professional conduct, deterring actions that may damage the organization or its stakeholders. Likewise, according to Etim et al. (2024), ethics have meaningful consequences in the workplace, especially with regard to the reduction of financial misappropriation and misconduct.

On the other hand, if there is not a strong ethical culture, fraud is more likely. When an organization has weak ethical standards, poor codes of conduct, and a lack of leadership support for the organization, conditions are present for enabling fraudulent behavior to flourish. In such settings, Dorminey et al. (2018) suggest that workers in these environments can rationalize unethical behavior, and view fraud as acceptable or justified, thus increasing the susceptibility of the organization to fraud. Other literature highlights the need for robust internal control and ethical management to prevent and deter fraud. Leaders who set up policies, ensure consistency across all aspects and establish strong monitoring systems provide much less opportunity for unethical practices. According to Rezaee and Riley (2020), pairing ethical leadership and good internal controls reduces opportunity to commit unethical acts and rationalization for such acts, establishing a 'preventive' approach that strengthens control and governance at an organization.

Systems of fraud prevention are further strengthened by transparency and accountability. Companies which value transparency, honesty in reporting and accountability mechanisms are more likely to identify and respond to unethical conduct. Mulholland et al., (2022) and Mintz and Morris (2020) note that transparency enables stakeholders to track organizational activities and accountability strengthens individual responsibility for ethical behavior, thereby improving the effectiveness of fraud-control efforts. Moreover, the regular ethics training and awareness programs are playing a key role in the development of the culture of integrity and compliance. According to Etim et al. (2024), continuous ethics training helps members of staff to recognize, stop and act against unethical activities, thus enabling all management levels to make informed decisions about ethics.

In general, the literature suggests that moral principles are not only ideals to strive for but a tool for fraud prevention. An ethical culture, accountability, transparency, effective internal controls, and frequent ethics training are factors that increase an organization's ability to prevent fraud, protect confidence, and improve credibility.

5.0 Conclusion

This study has focused on the use of ethical principles in situations involving attempts to prevent and control fraud in organisations. The literature review and theoretical frameworks indicate that pressure, opportunity and rationalisation are the three factors that cause fraud and ethical principles including integrity, objectivity, accountability, transparency and professional competence are important in reducing these risks. The results show that those organizations that operate in an ethical culture are far less likely to be involved in fraudulent activities, as well as if they have good internal controls, ethical leaders, and transparent practices. On the other hand, low moral standards and poor governance governance lead to the risk of wrongdoings and financial malfeasance.

In general, the research confirms that ethical values play a crucial role in eradicating fraud both within organizations and in society. An institution can not only prevent dishonesty and fraudulent behaviour, but also foster trust, increase governance, and keep institutional

integrity by creating ethical awareness, accountability, and embedding professional standards in institutional policies and decision making. Ethical behavior then, is not only a moral duty, but also a necessary condition for long-term and responsible conduct of an organization.

Recommendations

Based on the findings of this study, the following recommendations are proposed to enhance the application of ethical principles in preventing and addressing fraud:

1. Organizations should create and establish clear codes of ethics that define acceptable conduct, professional obligations and penalties for actions that are deemed unethical.
2. Continuous ethics training and awareness activities should be conducted to refresh the employees' values, strengthen ethical decisions and education participants in preventing fraudulent activities.
3. Leaders should demonstrate ethical practice, hold people accountable, and routinely remind and reinforce the value of ethics throughout the organization.
4. Organizations have to establish efficient internal control, audit and monitoring systems to detect and prevent fraud and ensure ethical practices are followed.
5. Governments, regulatory bodies, and institutions should implement measures to encourage responsible business practices, transparency and accountability to minimize opportunities for fraud and improve public confidence.
6. With proper execution, these suggestions can assist organizations create an ethical culture, reduce fraudulent act and keep the confidence of stakeholders.

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