

BULETIN

UiTM CAWANGAN NEGERI SEMBILAN
KAMPUS SEREMBAN
EDISI 10 2025

F
P
N
S
3



fpnuitmn9s3



<https://encr.pw/FakultiPerakaunanS3>

Fraud Prevention: Issues and Recommendations

Nurul Syafiqah Ros Muhammad, Saflina Azis & Mustafa Kamal

Introduction

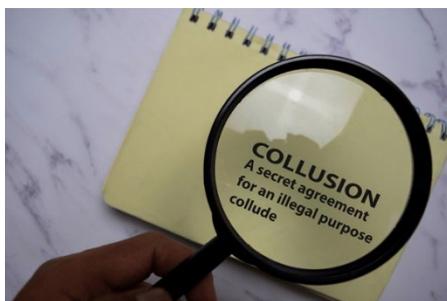
In today's business environment, financial fraud remains one of the most serious and recurring threats to organisations. Despite advancements in technology and accounting practices, many companies continue to struggle with preventing fraud effectively. Financial fraud refers to the intentional manipulation or misrepresentation of financial information for personal gain or to mislead stakeholders. Such actions can cause significant financial losses while damaging a company's reputation, trust, and long-term sustainability. Preventing financial fraud requires more than systems and policies—it also depends on organisational culture, oversight, and employee awareness. Weaknesses in these areas often create opportunities for fraud. The main issues are outlined below.



Issue 1: Management Override of Internal Controls

Management override occurs when individuals in positions of authority intentionally bypass or manipulate internal controls for personal or organisational gain. This issue is particularly concerning because it allows fraud to be concealed, even when hierarchy's approval or control mechanisms exist. For instance, while ordinary employees may require supervisory authorisation before processing payments, a finance director with higher authority could approve false transactions or alter financial statements without scrutiny. This problem often arises due to unrestricted authority and the absence of independent oversight, such as audit committees or board reviews. Because senior management sets the very rules meant to prevent fraud, their actions are harder to challenge. Employees may also be reluctant to report misconduct by superiors if there are no whistle-blower protection policies in place. As a result, transparency and trust within the company are undermined. The consequences of management override include significant financial losses, reputational harm, and a toxic workplace culture. Fraud at the management level is often more complex, hidden, and difficult to detect. Furthermore, employee morale suffers when unethical behaviour goes unpunished, weakening trust in leadership.

Issue 2: Collusion Among Employees



Collusion occurs when two or more employees work together secretly to commit fraud, misconduct, or procedural violations for personal gain (Jacy, 2021). They may manipulate documents, hide evidence, or deceive systems to avoid detection. For example, a finance officer responsible for recording payments may collude with a procurement officer who approves invoices. Together, they could submit fake invoices from fictitious suppliers, authorise payments, and divert funds into personal accounts. Since both individuals validate the documentation, the fraud can go unnoticed. Collusion usually arises when there is no independent verification or cross-checking by a third party, such as an internal auditor. The risk increases when companies lack regular reviews or internal audits, which leaves weaknesses in the system unaddressed. The impacts include financial losses, reduced cash flow, and potential disruption of operations if the fraud involves large sums. Reputational damage is another serious consequence, as exposure of fraud can erode trust among customers, investors, and stakeholders. Once lost, trust is difficult to restore, and the company risks losing future business opportunities.

Issue 3: Limited Role of Accountants in Fraud Prevention

In many organisations, particularly small and medium enterprises, accountants are primarily tasked with preparing financial reports and ensuring compliance with standards. While important, this limited scope prevents them from contributing effectively to fraud prevention. Accountants possess the skills to analyse financial data, detect unusual patterns, and evaluate the accuracy of records. However, when they are excluded from risk assessments, internal audits, or reviews of high-risk transactions, opportunities for early detection are lost. This limitation often stems from management's focus on short-term financial performance. Accountants are viewed as report preparers rather than key players in fraud detection. Moreover, they may lack access to essential information, such as vendor records, or face pressure not to challenge suspicious activities. The Enron scandal serves as a cautionary example—accountants lacked the authority to question management decisions, enabling large-scale fraud to continue unchecked. Without the active involvement of accountants, companies risk weakened internal controls, misleading financial reporting, and potential regulatory action (Tarmizi Achmad et al., 2024; Russo, 2022).



Recommendations

1. Implement Whistle-blower Protection Policies

To address management override, companies should establish safe and confidential reporting channels. Employees often hesitate to report misconduct by superiors due to fear of retaliation. Whistle-blower protection policies ensure that employees can report unethical behaviour without fear. For instance, companies can set up anonymous hotlines or third-party reporting platforms, supported by clear non-retaliation policies. Independent committees should handle investigations to ensure fairness and transparency. Such initiatives foster accountability, strengthen oversight, and build an ethical workplace culture.

2. Strengthen Internal Controls and Segregation of Duties

To reduce collusion, companies should enhance internal controls by segregating key duties (Mehta, 2024). Responsibilities for initiating, authorising, and recording transactions should be assigned to different individuals. For example, a manager approves purchases, a warehouse clerk verifies goods received, and the accounts payable department processes payments. This layered approach makes it harder for fraud to occur unnoticed, while increasing accuracy and accountability. Strong internal controls also help nurture a culture of transparency and sound risk management.

3. Expand the Role of Accountants in Fraud Prevention

Companies should broaden accountants' responsibilities beyond financial reporting. Their expertise in financial analysis, internal controls, and compliance makes them invaluable in detecting fraud. By involving accountants in risk assessments, audits, and high-risk transaction reviews, companies can identify red flags earlier. Forensic accountants play a vital role in evaluating evidence and uncovering manipulation in complex transactions (Aurelie, 2024). Expanding the role of accountants strengthens fraud prevention frameworks, improves financial reporting accuracy, and enhances corporate governance. Ultimately, it promotes a transparent and trustworthy business environment.

Conclusion

Financial fraud is a persistent challenge for organisations, driven by weak oversight, poor ethical culture, and limited employee involvement in prevention. The three key issues—management override, employee collusion, and the underutilization of accountants—are significant contributors. To combat these threats, companies should establish whistle-blower protection, strengthen internal controls, and expand the role of accountants. These measures not only reduce fraud risks but also improve financial reporting accuracy, stakeholder confidence, and compliance with regulations. A comprehensive fraud prevention strategy built on ethical leadership, strong controls, employee awareness, and professional involvement will ensure long-term trust, accountability, and sustainability.



References

- Aurelie. (2024). *The Role of Forensic Accounting in Fraud Detection*. INAA. <https://www.inaa.org/the-role-of-forensic-accounting-in-fraud-detection/>.
- Jacy. (2021). *Collusion the accounting definition - Accounting Internal Controls*. Accounting Internal Controls. <https://accountinginternalcontrols.com/collusion-accounting-definition/?utm>
- Mehta, A. M. (2024). *Types and Functions of Internal Controls*. Pressbooks.pub; Conestoga Open Learning. <https://ecampusontario.pressbooks.pub/internalauditing/chapter/05-02-types-and-functions-of-internal-controls/>
- Russo, K. (2022). *What Are the Risks of Inaccurate Financial Reporting?* Oracle NetSuite. <https://www.netsuite.com/portal/resource/articles/accounting/inaccurate-financial-reporting.shtml?utm>
- Tarmizi, A., Huang, C. Y., Putra, M. A., & Imang, D. P. (2024). Forensic Accounting and Risk Management: Exploring the Impact of Generalized Audit Software and Whistleblowing Systems on Fraud Detection in Indonesia. *Journal of Risk and Financial Management*, 17(12), 573–573. <https://doi.org/10.3390/jrfm17120573>.