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NARZĘDZIA KONTROLINGU

**wspomagające
zarządzanie ryzykiem
nadużyć pracowniczych**

WYDAWNICTWO UEP



UNIwersytet
EKONOMICZNY
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Controlling instruments for supporting occupational fraud risk management

Summary

<https://doi.org/10.18559/978-83-8211-264-1-summary>

Justification for the choice of the monograph topic

According to resource theory, employees are among the most valuable resources in organisations and as such have a significant impact on their performance (cf. Muda et al., 2020). As a result, occupational fraud – any type of abuse committed by employees against their organisations – can become a considerable obstacle to the development of enterprises.

Given the prevalence of occupational fraud – on average, one in two companies admits to its detection (PwC, 2018b, p. 5, 2020a, p. 3, 2022, p. 3), it poses an important problem for enterprises, translating not only into lost revenues but also lost clients, markets, and know-how. It contributes to the rising costs of employee control and supervision while decreasing their commitment, efficiency, effectiveness, and morale. In addition to the direct costs of fraudulent activity, companies are also forced to bear additional expenses such as costs of investigation, employee suspension, external sanctions, permanent exchange of personnel, and intangible costs (Button et al., 2015, p. 170; Peters & Maniam, 2016, p. 104).

Fraud (or, more generally, ‘abuse’) is an interdisciplinary concept addressed by many fields of science such as law, sociology, economics, finances, management and quality sciences. In this monograph, occupational fraud (also known as internal or employee fraud) is defined as the use of one’s occupation for personal enrichment through the deliberate misapplication or misuse of the company resources (including assets), and acting – either intentionally or unintentionally – to the detriment of the organisation, also regardless of the employee’s own benefit.

Literature offers publications on occupational fraud analysed by the category of risks involved (e.g. Hess & Cottrell, 2016; Power, 2013). However, the latter should also be approached in terms of negative risk response – as an actual threat that can arise in connection with employees’ qualities, competences, and behaviour. As a result, it seems justified

More in the monograph in Polish: Śmiałek-Liszczyńska, P. (2025). *Narzędzia kontrolingu wspomagające zarządzanie ryzykiem nadużyć pracowniczych*. Wydawnictwo Uniwersytetu Ekonomicznego w Poznaniu. <https://doi.org/10.18559/978-83-8211-264-1>

to venture the thesis that the risk related to occupational fraud can or indeed should be managed. Occupational fraud risk management could be viewed as a set of interrelated actions implemented with the aim to reduce the materialisation of occupational fraud risk.

Occupational fraud risk can become part of integrated risk management, or Enterprise Risk Management (ERM). The latter is defined as a risk management process that covers all possible types of risk to which enterprises can be exposed (Senol & Karaca, 2017, p. 6).

Despite their holistic approach to risk, individual adjustment options and general status as one of the most effective risk management tools, the ERM systems are mainly implemented by large enterprises and international corporations due to the cost of the investment (Jonek-Kowalska, 2019, p. 406). Therefore, it is not surprising that, according to research, Polish companies (among which enterprises defined as large in terms of the number of employees accounted for only 0.2% in 2020) do not detect fraud with the use of risk management systems or advanced data analysis. Nevertheless, this does not mean that they cannot use other – simpler (not always systemically incorporated) – tools to ensure effective protection against occupational fraud risk.

While research on tools used to reduce occupational fraud risk is available (e.g. Bishop & Hydoski, 2009; Pauch, 2018; Segal, 2016; Wells, 2006), many publications deal with types of abuse and fraud (not only occupational) classified as economic crimes (e.g. Jasiński, 2013) or tend to describe general instruments that could be applied (e.g. Anindya & Adhariani, 2019; Oleksyk, 2015). This approach is dictated by the operational specificity of enterprises where even standard processes can be performed in different ways. In addition, authors emphasise that, despite the popularity of the concept of risk management, companies still lack the knowledge, resources and reliable tools to support risk management (Ferreira et al., 2019, p. 78). In view of the above, controlling instruments could be viewed as instruments that not only minimise the consequences of occupational fraud but also reduce the materialisation of occupational fraud risk.

Controlling instruments adopted in human resources (HR) could provide a certain level of support in this respect, particularly that their use does not have to entail high expenses while source data usable in controlling is frequently collected by enterprises for other purposes. Nevertheless, the analysis of the subject literature did not reveal many indications explaining how employee-oriented controlling and controlling instruments could contribute to a more effective management of occupational fraud risk.

While publications on the integration of risk management and controlling, emphasising the importance of applying both concepts simultaneously, can be found (e.g. Bednarek, 2018; Fiedler, 2012; Jasiński, 2013; Rana et al., 2019), they are relatively scarce in number and they do not deal with occupational fraud risk management or the parallel use of employee-oriented controlling instruments in this process.

The attractiveness of controlling instruments, the theoretical and practical needs, and a gap in the literature (as well as in practice) regarding their use in occupational fraud risk management justify the undertaking of research in this area. The choice of controlling and controlling instruments to support occupational fraud risk management is dictated by what lies at its core. Controlling is most frequently recognised as a management support system that helps executives make decisions and adapt to changes in their area of operation (E. Nowak, 2003, p. 9). Controlling comprises the planning, supervision and management of organisational processes (Vollmuth, 2007, p. 14). In terms of occupational fraud

risk management, supervision emerges as a particularly significant aspect of controlling. Given that the lack of proper internal control contributes to a higher likelihood of fraud risk and its materialisation (Naruedomkul et al., 2010, p. 208), this feature becomes all the more important. Therefore, it appears necessary to verify controlling instruments applied in enterprises and identified in the subject literature, and specify the ones that could be used to reduce occupational fraud risk.

Research problem and purpose of the monograph

In view of the above, the research problem was defined as **the use of controlling instruments in improving occupational fraud risk management and their importance in reducing occupational fraud**. To this end, the following research questions were asked:

1. What categories and types of occupational fraud are faced by companies, and what are their consequences?
2. What actions are implemented by companies to reduce occupational fraud risk?
3. What controlling instruments are used in companies to detect occupational fraud and prevent occupational fraud risk?

Based on the literature research, research problem and research questions, the primary aim of this monograph was formulated as follows: **to identify a catalogue of controlling instruments that could support occupational fraud risk management and to indicate their application scope in companies**.

To this end, it is necessary to organise the current knowledge on occupational fraud and occupational fraud management risk, as well as on controlling and its employee-oriented instruments. As a result, in addition to the (primary) aim of the study, (secondary) objectives were also proposed. In the theoretical dimension, the following objectives were identified:

1. To update the definition of occupational fraud and indicate what determines its occurrence;
2. To link the forms and functions of controlling with occupational fraud risk management;
3. To identify controlling instruments applied in HR.

With the primary aim in mind, own study was conducted as presented below. In the research dimension, the following (specific) objectives were formulated:

4. To identify the most common categories and types of occupational fraud along with their consequences;
5. To identify actions implemented by companies to reduce occupational fraud risk;
6. To identify controlling instruments used to detect occupational fraud and prevent occupational fraud risk;

Taking into account the practical dimension of the unfolding discussion and the aim of the study, the following application objective was also defined:

7. To propose good practices derived from controlling to support occupational fraud risk management.

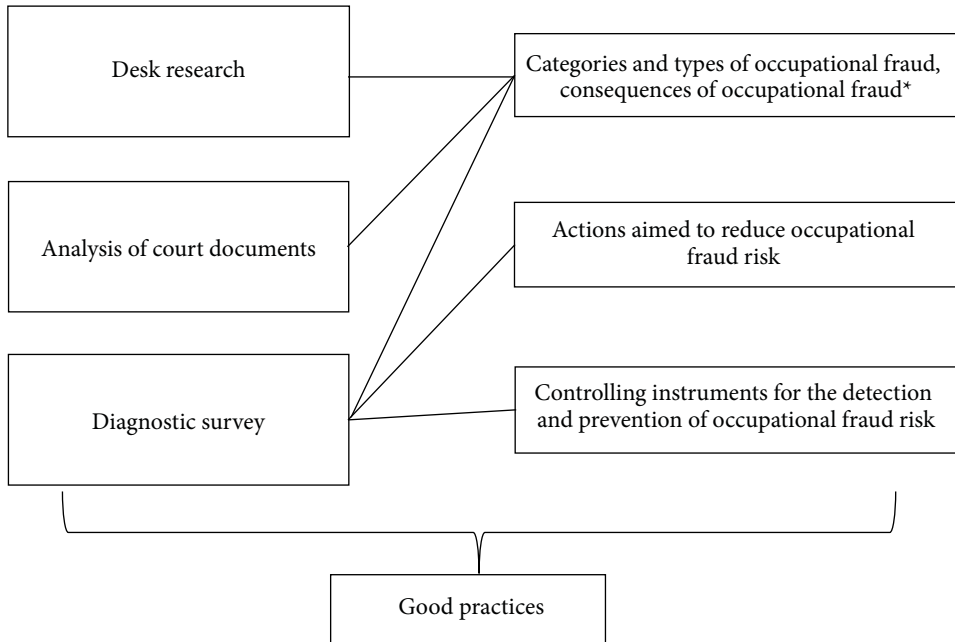
Research methodology

The nature of the presented research was exploratory – it served to identify controlling instruments that can facilitate occupational fraud risk management. Given the poor recognition of the topic, both in literature and practice, its sensitivity and specificity, as well as the need to explore the matter of occupational fraud risk in greater detail, qualitative research was also conducted, and inductive reasoning was applied making it possible to build new knowledge based on the collected research material.

The aim and the objectives were achieved using various research methods associated with both secondary and primary sources of data. The adoption of the triangulation strategy – the use of diverse data sources and research methods – contributed to increased reliability of the research procedure. As part of it, the following research methods were applied:

- Critical analysis of the subject literature, which provided the basis for the theoretical discussion including the use of accurate terminology, analysis of conditions pertaining to occupational fraud, personnel-related risks, and occupational fraud risk management. This method was also used to indicate control and supervision as an element of personnel functions, controlling functions and forms, as well as to identify employee-oriented controlling instruments.
- Desk research, which was based on the analysis of data from reports and other studies published between 2016 and 2024 by ACFE, EY, PwC, Kroll, Transparency International, and in the reports of the National Labour Inspectorate in Poland (a total of 30 publications). These documents provide information on acts of occupational fraud committed in the world, Europe (European Union, EU), and in Poland. Based on this data, categories and types of the most common occupational frauds and their effects could be identified.
- Document analysis, which included the analysis of the content (by the area studied) of case files considered by the Seventh Department of Labour and Social Insurance of the District Court in Poznań between 2013 and 2022, and in the Third Criminal Division of the District Court in Wrocław between 2016 and 2018 (a total of 64 cases), which made it possible to identify the categories and types of materialised occupational fraud risks of significant financial consequences for the companies concerned.
- Diagnostic survey, which was based on a standardised interview questionnaire and conducted on a sample of 31 respondents (members of senior management in companies of diverse operational profiles in Poland) between April 2021 and January 2022. It provided a greater insight into the categories, types, and consequences of detected acts of occupational fraud, as well as actions taken by organisations and controlling instruments used to detect and prevent occupational fraud risk.

A summary of the research methods used in the study is outlined in Figure 1.



* Consequences of occupational fraud were listed based on the desk research and diagnostic survey. The court file data was excluded from this compilation due to the fact that it would be difficult to establish the actual (subjective) value of the sustained loss beyond the one investigated in a given lawsuit, partially because as of yet no final judgement has been passed in some of the analysed cases.

Figure 1. Research methods and their links to the studied areas

Source: own study.

In view of the above, the objective scope of the unfolding study focused on controlling instruments that can support occupational fraud risk management, while the subjective scope included enterprises (of diverse business profiles). Throughout the monograph, the terms ‘enterprise’, ‘organisation’ and ‘company’ are used interchangeably. Geographically, the study deals with companies operating within the territory of Poland; however, the analysis of the subject literature and available data largely includes also international sources. Most of the works referred to in the critical analysis of the subject literature and other data (reports and other studies, court case files, results of the diagnostic survey) have been published within the period of the last ten years.

Structure of the monograph

The structure of this monograph was dictated by the identified research problem and the pursuit of the aim and objectives. As a result, the monograph is divided into five sections preceded by the introduction and ending with the conclusion. The theoretical and

empirical nature of the study is reflected in the layout of the discussion. The first two sections belong to the theoretical part, while the third, fourth and fifth sections form the empirical part of the monograph.

The first section is dedicated to occupational fraud risk. It offers the definition of occupational fraud adopted throughout the work, identifying the categories and types of this risk in organisations. This part also presents the conditions conducive to occupational fraud. It highlights the importance of personnel risk (risk related to employees) and the management of occupational fraud as one of its manifestations.

The second section focuses on controlling oriented to HR. It analyses control and supervision as important aspects of personnel functions. Various approaches to controlling are presented, with control considered as one of its vital components. Other functions of controlling and its application forms in companies are also discussed, and employee-oriented controlling instruments are indicated. The latter are listed by organisational areas (functions).

The third section marks a division between the theoretical and empirical part of the monograph. It presents the research problem and objectives, as well as the methodology of own research based on inductive reasoning and triangulation (in terms of both data sources and research methods) as a strategy intended to contribute to a greater reliability of the research procedure. This chapter also describes the selection of study groups along with their characteristics by the research method applied.

The discussion unfolding in the fourth section offers some insight into actual cases of occupational fraud risk that materialised in the studied companies. Categories and types of occupational fraud are outlined along with their consequences. Other features of employee risk, e.g. duration, are also described. These aspects are discussed based on the results of secondary research conducted by the author, supplemented with the results from the primary research. They also form the basis for further analysis in the subsequent chapter.

The fifth section describes controlling instruments used in HR management as well as other actions aimed to reduce occupational fraud risk (in terms of both detection and prevention of occupational fraud). It presents the results of the author's own empirical research conducted in companies operating in Poland. The chapter ends with the presentation of good practices in controlling aimed at reducing occupational fraud risk in organisations.

Conclusions

One of the primary conclusions from the analysis of the subject literature is that occupational fraud risk management and controlling instruments are not commonly discussed in combination despite the clear and consistent indication that occupational fraud should be included in risk management (including risk related to HR) and the fact that controlling and many of its tools are already frequently used in risk management.

Among the primary research findings is the presentation of categories (listed in the form of a fraud tree), with the indication of the highest frequency and specific types of occupational fraud. Given their complexity, heterogeneity and multi-faceted character, no algorithm could be developed to identify the risk category or instrument type that could allow companies to reduce this particular risk. Based on the scope of research sources,

the principal (most common) category of occupational fraud has been defined as asset misappropriation. A similar conclusion regarding heterogeneity is also made with respect to types of occupational fraud. However, the most common types have been found to be related to theft of inventory/assets and cash through cash larceny, invoice manipulations, and the use of assets for private purposes. They also include acts of fraud related to sales manipulations (listed in the category of corruption). In addition, the traditionally quoted classification in the form of a fraud tree has been extended to include types of fraud identified in the author's own research and previously not reflected in the traditional approach.

Based on the listed categories and types of occupational fraud, it has been possible to specify the consequences that may emerge in case of the risk materialisation. A review of the reports and data from the diagnostic survey shows that the direct negative financial impact of frauds should provide a considerable motive to prevent them. In addition, it also emphasises that fraud can affect the situation of employees (atmosphere, motivation), calling for an additional organisational effort or having a negative effect on the company's image.

These analyses have facilitated the identification of controlling instruments in the HR area used to detect and prevent occupational fraud, as well as other solutions oriented towards the reduction of occupational fraud risk.

The diagnostic survey has shown that despite the high frequency of the use of control mechanisms and (primarily internal) audits in companies, they are not implemented by every organisation or carried out correctly even though their advantages in reducing occupational fraud risk are known. While respondents are generally aware of the availability of solutions reducing occupational fraud, their implementation is hardly a common practice. Whatever corrections or entirely new solutions were found in the studied organisations, they proved to have been introduced only after a fraud had been detected (as a result).

Interestingly, occupational frauds also occur (based on the diagnostic survey) in enterprises that have risk management or internal control departments, general risk management systems and controlling departments, regardless of the size and nature of core business operations. Moreover, within the period of the past three years no fraud has been detected (despite such cases being detected before) in organisations that featured occupational fraud risk management (focused primarily on financial frauds and corruption).

The identification of actions taken by enterprises has made it possible to distinguish and describe a catalogue of instruments for reducing occupational fraud risk which seem to be universal in character. Regardless of the company's size, core business, organisational structure or risk management system (if available), certain types of fraud and countermeasures (covering both detection and prevention) will remain similar even if the selection and implementation of the latter is specific to every organisation. The tools and actions for reducing occupational fraud risk have been presented in thematically related groups depending on the intended effect: work effects and performance, assets and costs, information flow, procedures and processes, and workplace. The controlling instruments discussed in the monograph (also as solutions supporting other activities) display a variety of advantages. Their implementation cost is usually low, and they can be easily automated and digitised. In addition, they also ensure considerable levels of independence and impersonal (and thus impartial) verification and supervision. The combination of the well-known risk management processes with controlling instruments can provide an effective solution in counteracting, detecting, and reducing the consequences of fraud.

Another important conclusion has been the recognition of a gap between the conceptual scope of controlling (defined in extremely broad terms) and the practical use of specific controlling instruments. This monograph highlights the interest expressed by respondents both in the topic of fraud and the possible application of controlling instruments in this area. Nevertheless, other attitudes were also observed. Certain companies (particularly those in which respondents did not deal with occupational fraud on a frequent basis) seem to share a belief that this problem does not and will not apply to their organisation (despite reports and studies testifying to the opposite). Similarly surprising is the approach of other organisations which consciously resign from certain rules (e.g. with reference to fraud related to business expenses), building the atmosphere of trust and verifying only significant deviations. In these cases, the cost of control could be higher than the implementation cost of solutions reducing the risk. However, one must bear in mind that tolerance of petty larceny (even when the employee is given a 'minor' reprimand) can pave the way for major frauds.

Limitations and further directions of research

This study has proven that occupational fraud is a complex and often multi-faceted problem, and that it is impossible to assign one specific instrument to one type of fraud (partially due to interactions that may occur between the tools and actions, making it difficult to determine the potential effectiveness of individual solutions). In addition, when analysing the study results, one should bear in mind the constantly changing conditions in business, for example, due to the pandemic or work automation (which may lead to modifications in the already recognised types of fraud). Consequently, the presented findings cannot be used to propose a universal theory. Given the nature of this study and the choice of study samples of limited size, the focus of this research was to explore the phenomenon in greater detail rather than generalise it.

Another significant (albeit conscious) limitation is the insufficient attention paid to psychological aspects of occupational fraud. The latter are among the determinants of employee fraud included in the fundamental model of fraud known as the Fraud Triangle (rationalisation) and the reasons attributable to both employees and companies (pressure/motive).

These limitations can set the directions for future research. It is recommended that the latter focus on the identification of controlling instruments for supporting occupational fraud risk management, taking into account the nature of the company's business operations, type of industry, and the scope of employees' responsibilities. Such a concretisation may offer particular values in terms of applicability. Nevertheless, even research of a very narrow focus should never fail to recognise the extraordinary complexity and highly individual nature of fraud.

Given this interdisciplinarity and complexity, future research on occupational fraud should seek to verify (both theoretically and empirically) the impact of controlling solutions (or other parametric measures) on behaviour in the organisation. In this respect, it may be advisable to study the relationship between control and the atmosphere in the workplace and/or organisational trust.

Another important research area emerges in connection with this relationship. This is the verification of the total costs of control, i.e. expenses for the implementation of instruments, their verification and updating, the cost of employee time allocated to the use of these tools, as well as organisational and social costs. Perhaps these costs are the reason why organisations choose not to take action or react inadequately to the loss sustained due to employee fraud. While indicated in this study, the latter was not explored in greater detail.

The suggested directions for future research and the results obtained in this study allow us to confirm the role of controlling in occupational fraud risk management. The universal character of the proposed instruments, low cost of use and, neutral impact on the atmosphere at work should encourage their implementation. Moreover, controlling instruments can not only contribute to reducing occupational fraud, but they can also prepare companies to seek damages from employees (and exercise measures adequate to the sustained loss) more effectively.

Keywords: occupational fraud, employee fraud, internal fraud, risk management, occupational fraud risk management, controlling, controlling instrument.

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Proofreading by Robert Pagett

