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ACCOUNTING ERRORS, FRAUD AND FINANCIAL CRIME: THE CASE STUDY OF LITHUANIA

Головна причина браку довіри до фінансової інформації – фальсифікація фінансових декларацій. Дослідження демонструє, що помилки звітності та фальсифікації викривляють фінансові результати та не відображають істинні режими роботи, в той же час це приводить до неправильних рішень, неточних прогнозів та ділових перспектив. Ключовими ініціаторами маніпуляцій фінансовою інформацією є директори, акціонери та бухгалтери. Для того, щоб краще зрозуміти діапазон помилок та фальсифікацій дуже важливо встановити критерії. Головними критеріями класифікації помилок та фальсифікацій є причини, значення, зміст та наслідки. Стаття аналізує спотворення інформації, цілі, причини та наслідки фінансових декларацій, дає особливості маніпуляцій та ефекти, аналізує відповідальність за маніпуляції та виявляє види фінансових злочинів у Литві.

Ключові слова: помилки звітності, фальсифікація, фінансовий злочин, доказ.

Главная причина нехватки доверия к финансовой информации – фальсификация финансовых деклараций. Исследование демонстрирует, что ошибки отчетности и фальсификации искажают финансовые результаты и не отражают истинные режимы работы, в то же время это приводит к неправильным решениям, неточным прогнозам и деловым перспективам. Ключевыми инициаторами манипуляций финансовой информацией являются директора, акционеры и бухгалтеры. Для того, чтобы лучше понять диапазон ошибок и фальсификаций, очень важно установить критерии. Главными критериями классификации ошибок и фальсификаций являются причины, значение, содержание и последствия. Статья анализирует искажение информации, цели, причины и последствия финансовых деклараций, дает особенности манипуляций и эффекты, анализирует ответственность за манипуляции и выявляет виды финансовых преступлений в Литве.

Ключевые слова: ошибки отчетности, фальсификация, финансовое преступление, улика.

The main reason of the lack of confidence in financial information is falsification of financial statements. The study demonstrates that the accounting errors and frauds distorts financial results and do not reflect the true operating conditions, at the same time its leads to wrong decisions, inaccurate forecasts and business prospects. Key initiators of the financial information manipulations are directors, shareholders and accountants. In order better understanding the range of errors and fraud is very important to distinguish criteria. The main criteria of the errors and frauds classification are: causes, significance, content and consequences. The article analyzes the distortion of information, goals, causes and consequences of the financial statements, provides manipulation features and effects, analyzes responsibility for manipulations and reveals the types of financial crime cases in Lithuania.

Keywords: Accounting errors, fraud, financial crime, evidence.

Deception, fraud and other financial crimes should be disclosed in order that all the financial information presented to inform all its customers to collect owed taxes to the budget. The Lithuanian legislation establishes the concepts of financial crime, refers to evaluating any responsibility for such acts. The main legislation governing the responsibility for financial crimes is the Criminal Code of Lithuania and Code of Administrative Offences of Lithuania.

The extent of financial crime in Lithuania is quite large; it is documented by the Financial Crime Investigation Service in reports on the extent of crimes detected, their impact on the society and the State, as well. For the year

2010 in the report stated that State budget only from the criminal acts during the year 2010 not collected by more than 47 million litas, temporarily restricted right to the property for more than 101 million litas. According to the author's work this problem is really relevant. It is therefore necessary to examine the Lithuanian legislation and judicial practices on financial crime [3].

Working methods are the scientific literature analysis, the analysis of Lithuanian legislation framework, the analysis of the trial practice, the logical comparative analysis, organising the information, drill-down and aggregation methods.

The concept of financial crime in accordance with the legislation of Lithuania

The main legislative framework of the Republic of Lithuania that defines the responsibilities and penalties relating to financial crime is the Criminal Code of the Republic of Lithuania (hereinafter CC RL). It is worth mentioning, that the Law of Republic of Lithuania on the prevention of money laundering and terrorist financing, whose purpose is to identify money laundering and (or) terrorist financing prevention measures and the bodies responsible for implementation of prevention measures against money laundering and (or) terrorist financing.

CC LR distinguishes two types of offences: crime and misdemeanour. Article 11 of CC LR provides that the offence committed is banned and dangerous and for which there is provided for imprisonment. This Act provides the classification of offences, indicating that they are divided into the negligent and intentional. These can be divided into minor, less serious, serious and very serious.

Lithuanian legal framework includes separate legislation that provides for the concept of individual criminal acts. It is necessary to understand the concepts of the criminal act provided in the Law of Republic of Lithuania on the prevention of money laundering and terrorist financing by examining financial crimes. This act is defined in one of the types of criminal offenses – money laundering. This law states that money laundering is amendment of the legal situation of assets or transfer of property, knowing that such property is derived from criminal activity or participation in such activities, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person involved in a criminal offence to evade the legal consequences of this offence.

CC LR specifies that for the different levels of financial crime threatened with liability and penalties: custodial or public works or monetary penalties. The table below provides information about liability for financial crimes in CC LR.

Fraudulent accounting management

Still one of the types of financial crime is fraudulent accounting management. This is an intentional action, which seeks to get the benefit, despite the fact that carried out the crime. Article 222 of CC LR indicates that for fraudulent accounting management, destruction of or damage to documents or hiding, and therefore an inability to fully or partially determine the person's activities, its assets or liabilities, equity, or the size of the structure, is punishable by a fine or by imprisonment or arrest for up to four years.

Code of Administrative Offences of Lithuania also provides for liability for fraudulent accounting management. This Act is used to fraudulent accounting management associated with tax evasion, avoidance regarding evasion, evasion or their pay. In comparison with the CC LR of the fraudulent accounting concept it can be seen that this term is used in a broader sense and includes not only the tax area.

Criminal liability for fraudulent accounting management from administrative liability demarcate the fact that for the criminal liability it is necessary to have consequences, the inability to completely or partially determine a person's activities of its assets in equity or obligation size or structure defined in Articles 222 and 223 of CC RL. The article 1731 paragraph 1 of Code of Administrative Offences does not require of such consequences. It is sufficient to give rise to administrative liability for violation of the accounting rules only having the fact of that.

Author, after analyzing the Financial Crime Investigation Service reports about the fraudulent accounting management schemes, has determined that persons involved in criminal activity often use real companies which are not operating but providing invoices for goods or services not actually omitted. In the figure below, is shown in the following diagram of the criminal activity.

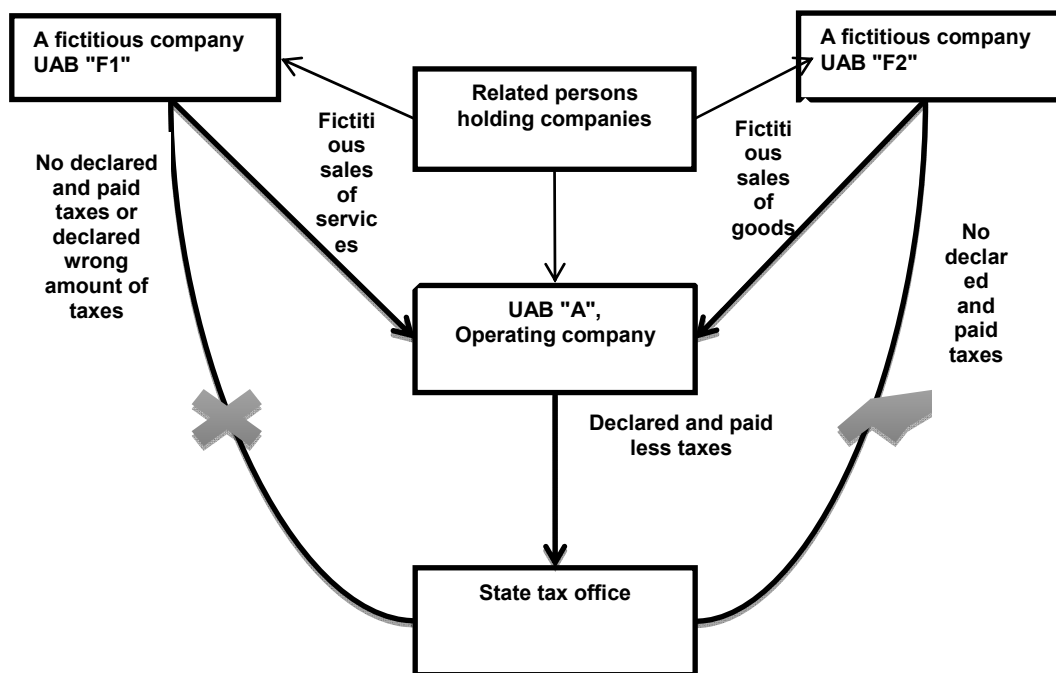


Fig.1. Fraudulent accounting management scheme

Source: Author's set up on the basis of the Financial Crime Investigation Service reports

The figure shows the three companies which belong to the same or related persons. The really operating company UAB "A" receives invoices from fictitious companies UAB "F1" and UAB "F2" for fictitious services or not received goods.

Negligent accounting management

Article 223 of CC RL provides for responsibility for the negligent accounting management. The law stipulates that whoever had to manage, but not managed or negligently handled bookkeeping required by legislation or during statutory defined period not kept safe documents and this activity resulted wholly or partly inability to determine the person's activities, its assets or liabilities, equity, or the obligation size or its structure, is punishable by a fine or public works, or arrest, or imprisonment for up to two years.

Similarly as in the case of fraudulent accounting management Code of Administrative Offences provides for liability for negligent account management. This law states that the negligent accounting management where the result is not paid taxes in level from thirty to fifty minimum living standards, which had to be paid by law for the verification period; there could be liability – a fine of three thousand to five thousand litas. Where due to such action is not paid for more than 50 minimum living standard the amount of taxes which had to be paid by law for the verification period, the person threatened with a fine from five thousand to ten thousand litas.

The concept of negligent accounting management in Code of Administrative Offences is used more narrowly than in CC RL because this Act caused by a criminal offence relating to tax evasion or illegal appropriation.

The judgment of the Supreme Court of Lithuania, adopted on 10 March 2009, stipulates that the negligent account management is inappropriate accounting treatment relating to the Accounting Act and other laws and legislation acts enforcement, for example, when all accounting documents are not registered and collected, documents and registers are not written and registered in accordance with the requirements of the mentioned laws.

Financial Crime Investigation Service carried out more than one pre-trial investigation for negligent accounting management. Below is an example to illustrate one of the described financial crime schemes.

Negligent account management covers a wide range of operations. For example, the write-off acts has not been prepared, the acts has not been prepared for fuel consumption rates, the inventory of assets, liabilities, has not been executed as required by the Law on Accounting.

Conclusions

Falsification of financial statements – the main distrust of the financial information by consumers of financial information.

The falsification of financial statements is extremely sensitive issue, whereas the information consumers have doubts about the authenticity of the data provided by the financial accounting and justice. Whereas the main objective of financial accounting is to provide a true and correct

information, it is especially important to users of financial information, that the information on this and would be.

The main financial information falsification initiators are company executives, shareholders and accountants.

The main criteria which make it possible to classify errors and negligence are causes of occurrence, importance and influence, the emergence of the way, content and consequences.

Financial literature highlights a key difference between errors and frauds. The literature indicates that the error is committed intentionally, random act of altering which does not change and distort financial information. Fraud is the intentional error about a deliberate, unlawful acts and the expression of malicious intention of employee.

It is important that life cycle of errors and fraud would be as short as possible to minimize the time after an error or fraud occurs before the preventive system for errors and fraud is created.

In addition, the literature has emphasized the fact that some of the errors and fraud in general is not detected and rectified and this may affect other errors and fraud occurring. So it is important that efforts are made to reduce the cycle to minimize the likelihood of errors and fraud.

The fact that the financial statements have been tampered could be shown by lot of circumstances and indications. For example, the fact that the company operates in economically unstable regions, that the company is lack of working capital, that the industry perceived major changes, that the company does not have qualified accounting professionals, that have changed most of the administrative staff.

Most disclosure of financial crime is related to value added tax embezzlement, whereas the persons carrying out the criminal activity create complex schemes; involve other companies not only in the country but also abroad.

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