

Fraud Management Techniques of Small and Medium Enterprises in the City of San Jose Del Monte, Bulacan

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Abstract: *Fraud is a wrongful and illegal intentional deception aimed at depriving a victim of legal entitlement. Various types of fraud can occur. Tax fraud, credit card fraud, wire fraud, securities fraud, and banking fraud are only a few examples. Government-imposed quarantine rules have increased the number of internet transactions during this outbreak. As more individuals engage in online transactions, entrepreneurs, particularly small and medium-sized businesses (SMEs), are turning to the digital realm to contact their customers. Numerous examples and concerns about online transactions have been documented, including undelivered goods, receiving products that are incompatible with the purchased product, and online fraud. From those circumstances, the profitability and credibility of the business were so much affected. This study aimed to determine the assessment of fraud management used by small and medium enterprises during the COVID-19 pandemic, the kinds of online frauds they experienced, and the factors of SMEs in Tungkong Mangga CSJDM, Bulacan. This study is anchored by W.K Wilhelm's (2004) *The Fraud Management Lifecycle Theory: A Holistic Approach to Fraud Management* which examined some significant lifecycle stages. This research used a quantitative descriptive correlational approach to evaluate and correlate the fraud management of SMEs-respondents with their profile (asset size of the company, number of years in operation, and types of business) and the kinds of online fraud they experienced. The researchers gathered the data and analyzed it using Analysis of Variance (ANOVA), t-Test, Scheffé Test, and descriptive statistics. This study revealed that the asset size of the company and the types of business does not affect the SMEs-respondents in assessing fraud management in terms of prevention, detection, and mitigation. Moreover, this research showed that the number of years in operation affects the SMEs-respondents' assessment of fraud in terms of detection and mitigation but does not affect prevention. The findings and results of the study were used to develop a strategy and accounting practices to improve the fraud management assessment for SMEs in Tungkong Mangga, City of San Jose del Monte, Bulacan.*

Keywords: Online Fraud, SMEs, Fraud Management

INTRODUCTION

Fraud has the potential to seriously disrupt any company's operations. Smaller enterprises, on the other hand, are frequently struck the hardest. Financial loss is the most damaging result of fraud in small firms. Fraud is becoming easier to commit and propagate in the digital environment. It's a false and illegal intentional deception intended to deprive a victim of legal entitlement. Various types of fraud can occur. Tax fraud, credit card fraud, wire fraud, securities fraud, and banking fraud are only a few examples.

Fraud can have a huge influence on an organization, business, or enterprise. If it cannot be discovered or stopped, it could have a major financial impact. In an article entitled "Online fraud in PH worsened during a pandemic," the type of online fraud experienced by the industry were identity theft and account takeover/hijacking, which is the second-highest rate of suspected digital fraud (Cayon, 2020).

According to Revenue Memorandum Circular No. 55-2013, online transaction refers to online shopping or retailing that involves consumers who directly buy goods and services from a seller over the internet without an intermediary service. As the COVID-19 pandemic hits the Philippines, many people face many challenges, such as buying essential goods and paying bills. From that, many people switched to online

transactions because it became a more convenient and safer way to prevent the possible infection of the virus.

Due to the quarantine protocols set by governments during this pandemic, the rates of online transactions have increased. Based on the online survey conducted by the 2020 PayPal Consumer Insights Survey, 87 percent of Filipinos increased their usage of digital payments during the pandemic, while 90 percent said they preferred digital payments over cash during this time and about 23 percent increased their activity in online shopping according to the survey of "We Are Social."

As people engage in online transactions, entrepreneurs also embrace the digital world, especially small and medium enterprises, to reach their customers. According to the Department of Trade and Industry, as of March 15, 2021, the number of online business registrations has increased to 7,525 from 1,642 in the same period last year. The new online registered business data represented about 8.5% of the total registrations in 2020 of 88,574. Because of the increasing numbers of businesses engaging online, online fraud has become a major threat. The global insights company Transunion study has seen a 31% increase in fraud attempts compared to the previous year.

As the pandemic continues, almost all the transactions occur online, paying bills, education system, buying foods, and banking transactions. From that, the possible online transaction fraud may also increase. Countless cases and complaints regarding online transactions had been reported like undelivered goods, not compatible received products with the purchased product, and online scams. From those circumstances, the profitability and credibility of the business were so much affected.

According to a survey performed by the Association of Certified Fraud Examiners (April 2020), 90% of respondents have noticed an increase in scams aimed at consumers, as well as buyer frauds on legitimate online retail websites. Senator Risa Hontiveros mentioned in her webinar that they are also "joy reservers and joy-dibblers," or those who make reservations but then cancel at the last minute. The Department of Trade and Industry and Bureau of Internal Revenue should protect those online sellers/businesses and buyers from scams and frauds and make online selling more secure for all Filipino Consumers.

Fraud, according to Gilbert (1997), is a misrepresentation of the facts in order to obtain an unfair advantage over another. Fraud is the practice of deception for financial advantage. Dishonesty is a necessary factor in doing this. It appears in a variety of settings (Zervos, 1992).

Frauds can be done through billing, check tampering, payroll, non-cash theft, corruption, financial statement fraud, and many more. Frauds happen when businesses or enterprises do not acknowledge the potential threat of fraud. In the online world, fraud happened because it is now easy to access and get the victims' confidential information.

The different types of fraud in the digital world are friendly fraud, clean fraud, identity theft, phishing, and re-shipping. Businesses must establish accounting practices or strategies to successfully prevent and detect frauds that may affect profitability if they cannot be prevented or detected immediately.

Hence, this study aimed to know how those small and medium enterprises in Tungkong Mangga, City of San Jose del Monte, Bulacan assessed fraud management in terms of prevention, detection, and mitigation, kinds of online transaction fraud they are experienced during the pandemic, and if there is a significant factor when they are grouped according to their demographic profile. The findings of this study served as the basis for proposed strategies and accounting practices that could help small and medium enterprises improve their assessment to detect, prevent and mitigate fraud.

Statement of the Problem

Particularly, it aimed to answer the following questions:

1. What is the demographic profile of the respondents in terms of:
 - 1.1. Asset size of the company,
 - 1.2. Number of years in operation, and
 - 1.3. Type of business?
2. What kind of online fraud transactions that SMEs experience during the COVID-19 pandemic?
3. How do SMEs assess the selected stages in fraud management in relation to online transactions in terms of:
 - 3.1. Prevention,
 - 3.2. Detection, and
 - 3.3. Mitigation?
4. Are there any significant differences between the fraud management used by the respondents when they grouped according to their demographic profile?
5. Based on the findings, what strategies and accounting practices may the researchers have proposed to prevent, detect, and mitigate online transaction frauds?

METHODOLOGY

Researchers used a quantitative approach to collect and analyze numerical data from existing and potential participants of this research. This research utilized the descriptive-correlational method. The descriptive design was used to determine the demographic profile of the respondents and how SMEs assess the online transaction frauds that occur during the COVID-19 pandemic.

Moreover, this research also examined the significant difference in SMEs when grouped according to their demographic profile in terms of asset size of the company, the number of years in operation, and the type of business.

The collected data were analyzed using a survey questionnaire given to all the target respondents of this study. The survey consists of questions about online transaction frauds that occur during COVID-19 and how small and medium enterprises in Tungkong Mangga, City of San Jose del Monte Bulacan, assess the fraud management to prevent, detect and mitigate fraud.

The respondents of this study were small and medium enterprises registered and operated in Tungkong Mangga, City of San Jose del Monte, Bulacan, as certified by the Business Permits and Licensing Office (BPLO). The computed population used in this study is 160. The researchers used a Cochran's Method Sample Size to determine the sufficient and reliable sample size

RESULTS AND DISCUSSION

Profile of the respondents

The majority of the businesses in the Tungkong Mangga, City of San Jose Del Monte, Bulacan are small enterprises (₱3,000,001-₱15,000,000), operated under 1-3 years, and the majority of them are service type of business.

Online Transaction Fraud

Most SMEs-respondents are experienced payment fraud. It is a kind of fraud also known as identity theft. A type of illegal transaction done by the perpetrator. Other online frauds that SMEs in Tungkong Mangga experienced are bogus suppliers and return fraud.

Assessment of SMEs grouped according to their demographic profile in preventing, detecting, and mitigating the frauds.

The SMEs-respondents have the same performance in assessing fraud management - prevention, detection, and mitigation when grouped according to their demographic profile regarding asset size and type of business. On the other hand, the number of years in operation has found significant differences in assessing detection and mitigation.

The significant difference between SMEs-respondents in assessing fraud management- prevention, detection, and mitigation when they are grouped according to their demographic profile.

The computed t-Test showed no significant differences among the means of the two (2) subgroups of asset size of the business regarding their assessment of prevention, detection, and mitigation.

On the other hand, the computed analysis of variance (ANOVA) presented significant differences among the three (3) subgroups in the number of years in operation regarding their assessment of fraud management – detection and mitigation. Hence, the number of years in operation is a significant factor.

Further, the multiple comparisons of means using the Scheffé test revealed a significant difference between the 1-3 and 4-6 years in operation in assessing detection and mitigation.

Moreover, the computed analysis of variance (ANOVA) showed that there were no significant differences among the means of the subgroup of the number of years in terms of assessing prevention and subgroups of type of business as regards their assessment in the fraud management – prevention, detection, and mitigation. Hence, the number of years - of prevention and type of business are not significant factors.

Strategies and accounting practices proposed by the researchers for the improvement of SMEs-respondents in assessing fraud management.

The proposed strategies and accounting practices have been formulated based on the results of this study.

CONCLUSIONS

Based on the foregoing findings of the study, the following conclusions are drawn.

1. The majority of the businesses in the Tungkong Mangga, City of San Jose del Monte, Bulacan are classified as small enterprises and operating under 1-3 years. The majority of entrepreneurs choose to run a service-based business.
2. Most of the SME respondents are experienced payment fraud, a kind of fraud also known as identity theft. Other online fraud SMEs experience is the bogus supplier and returns fraud due to the study in Tungkong Mangga City of San Jose del Monte Bulacan.
3. The SME-respondents have the same performance in assessing fraud management- prevention, detection, and mitigation in asset size and type of business. The number of years in operation has a significant difference in assessing detection and mitigation.
4. The SME-respondents have different ratings statistically when grouped according to three (3) subgroups of the number of years in operation regarding their assessment of fraud management- detection and mitigation. Hence, the null hypothesis is rejected. Moreover, the SME-respondents have the same ratings statistically when grouped according to the subgroups of asset size and type of business regarding their assessment of fraud management. Hence, the null hypothesis is accepted.
5. Strategies and accounting practices, which aim to provide recommendations for the improvement of SMEs-respondents in assessing fraud management in the Tungkong Mangga City of San Jose del Monte, Bulacan, as the output of this study was developed based on the findings of this study.

RECOMMENDATIONS

Based on the foregoing findings and from conclusions drawn, and within the scope and limitations of the study, the following recommendations are proposed by the researchers:

1. In view of the fact that many small enterprises are offering online transactions due to the COVID-19 pandemic, the researchers recommend that the government must warn them and provide more useful information on how they can prevent, detect, and mitigate fraud as they are more vulnerable to fraud according to Association of Certified Fraud Examiners (ACFE).

2. In view of the fact that the majority of the small and medium enterprises are experienced payment fraud, bogus suppliers, and return fraud, the researchers recommend that they should establish strong accounting practices on how they will assess fraud management to prevent, detect, and mitigate these kinds of online frauds.
3. In view of the fact that most small and medium enterprises are moderately performed in assessing record shipping destinations, the researchers recommend that they increase their performance in recording all the shipping destinations as it will help them detect possible online frauds.
4. In view of the fact that most small and medium enterprises have a different assessment as regards performing fraud management - detection and mitigation of online transaction fraud in the Barangay Tungkong Mangga, City of San Jose del Monte, hence, the researcher recommends that the businesses must educate and make their employees aware of what are the possible fraud that might occur. SMEs should segregate tasks and duties based on their functions and record all the reports. Segregate all transactions, including past transactions, to track what is happening in the business and any online fraud. Lastly, make use of the advanced technology that will ensure the identity of the buyers and suppliers and upgrade the equipment used by the business to be away from the perpetrator.
5. The researchers recommend that to eradicate or lessen the online transaction frauds experienced by small and medium enterprises, a webinar/seminar should be conducted to inform them about its nature, kinds, and how those frauds can be prevented, detected and mitigated. The researchers also recommend that the same study be replicated to validate the current findings and test the effectiveness of the proposed strategies and accounting practices to prevent, detect, and mitigate online fraud. Moreover, further studies may be conducted by adding other stages of fraud management (e.g., deterrence, analysis, policy, investigation, and prosecution) in assessing online transaction frauds to be applied in other cities and municipalities

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