ETHICAL RESPONSIBILITY AS PREVENTIVE MECHANISM AGAINST FINANCIAL FRAUD

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Abstract:
Financial fraud continues to represent one of the most costly and destabilising forms of organisational misconduct, because it simultaneously affects assets, the credibility of reporting, investor confidence and the proper functioning of markets. Although classical literature explains the emergence of fraud through the combination of pressure, opportunity and rationalisation, this article argues that ethical responsibility must be understood as a central preventive mechanism, capable of intervening before damage materialises. From this perspective, ethics is not treated as a rhetorical ornament of governance, but as a normative infrastructure that influences the quality of decisions, internal culture, the willingness to report irregularities and the robustness of professional control. The analysis starts from recent institutional reports and continues with the literature on fraud theory and investigative accounting in order to demonstrate that major financial frauds usually arise where procedural weaknesses combine with moral ambiguity and with the organisation's inability to protect economic truth. Within this framework, the article argues that ethical responsibility acts preventively by limiting the rationalisation of fraud, by strengthening a climate of openness and professional dissent, by increasing the quality of governance and by consolidating the role of financial professionals and auditors as guardians of the public interest. The case study dedicated to Wirecard illustrates, in concrete terms, how ignored warnings, insufficient checks and ethical formalism can transform early signals into financial collapse. The central conclusion is that the prevention of financial fraud begins before investigation and at a deeper level than compliance, namely in the organisation's capacity to transform integrity from declaration into verifiable practice and from symbolic value into an effective criterion of decision making.

Keywords: *ethical responsibility, financial fraud, internal control, financial auditing, professional scepticism.*

Clasificare JEl: M42, M41, M14, G34, K42.

1. Introduction

Financial fraud is one of those organisational dysfunctions that cannot be adequately understood solely by reference to accounting technique or legal constraint. When economic data are falsified, when assets are misappropriated, when liabilities are concealed or when revenues are presented in a manner intended to mislead investors, creditors or authorities, it is not only the regularity of documents that is affected, but the very possibility of trust in economic relations. Markets function on the basis of a reasonable presumption of truthfulness in information, and this presumption depends not only on norms and controls, but also on the moral conduct of those who produce, validate and use financial data. For this reason, financial fraud must also be approached as a first order ethical problem, not merely as a breach of compliance.

Recent global reports confirm the scale and persistence of the phenomenon. ACFE **(ACFE. 2026)** shows, in its Report to the Nations, that the analysis covered 2,402 real cases of occupational fraud investigated in 143 countries and territories, while evaluators continue to estimate that organisations lose approximately 5 percent of their annual revenues to fraud. At the same time, a typical fraud case lasts twelve months before detection, and 43 percent of frauds are discovered through tips, more than half of which come from employees. ACFE data also show that the

presence of anti fraud controls is associated with lower losses and faster detection, which suggests that prevention depends on a combination of formal mechanisms and organisational behaviours capable of bringing early signals of irregularity to the surface.
These findings become even more relevant when one considers that financial statement frauds, although less frequent than other types of occupational fraud, tend to produce disproportionately serious effects. The ACFE report **(ACFE. 2024)** explicitly emphasises that financial statement frauds are the least frequent, but the costliest, with median losses significantly higher than those produced by other schemes. Consequently, the central question is no longer whether organisations need anti fraud rules, but what exactly makes these rules work before disaster occurs. In other words, the real issue is one of ex ante prevention, not merely ex post reaction.

Within this framework, ethical responsibility appears as a decisive explanatory variable. The IESBA Code **(IESBA. 2024)** states that professional accountants have the duty to comply with the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, while recent revisions of the Code also insist on an inquiring mindset and on the strength of character required to act appropriately even under pressure or in conditions involving potential adverse personal consequences. In the same direction, the OECD **(OECD. 2020)** shows that a culture of integrity cannot result only from rules and sanctions, but requires periodic training, spaces for discussing ethical dilemmas, organisational openness and credible channels for reporting integrity breaches. Therefore, the present article starts with the hypothesis that ethical responsibility is not a secondary consequence of a good system, but one of the conditions that make a good system possible.

The purpose of this study is to demonstrate that ethical responsibility functions as a preventive mechanism against financial fraud by limiting the moral rationalisation of misconduct, by shaping organisational culture, by strengthening governance and by improving the quality of professional judgement in accounting and audit.

2. Ethical Responsibility and the Architecture of Financial Fraud Prevention

Ethical responsibility may be defined, in a financial context, as the obligation to act in relation to economic truth, the public interest and the integrity of the fiduciary relationships involved in the production, certification and use of financial information. Unlike legal responsibility, which is activated in relation to the violation of a specific norm and the possibility of sanction, ethical responsibility has an earlier and broader character, concerning the way in which the decision maker, accountant, auditor or manager interprets what he or she owes to others before the misconduct is completed. Precisely this anterior character explains its preventive value: ethics operates at the level of judgement formation, the limitation of self justification and the configuration of daily professional conduct.

In the classical literature on fraud, this preventive function is already suggested by Donald Cressey’s model **[6],** which has been constantly revisited and reassessed by subsequent research. Dorminey and his collaborators **[7]** show that the fraud triangle remains a major reference point for understanding fraud risk, but they also emphasise that contemporary explanations have gone beyond the simple pressure opportunity rationalisation scheme by integrating elements related to capability, organisational context and the social dimensions of the fraudulent act. At the same time, Trompeter and his collaborators show, in an influential synthesis of fraud related research, that the study of financial fraud requires an interdisciplinary approach connecting accounting and audit with ethics, psychology, sociology and organisational behaviour. This theoretical framework makes it possible to understand ethical responsibility not as a moralising addition, but as a variable with explanatory and preventive function.

From this perspective, the most important link on which ethical responsibility intervenes is the rationalisation of fraud. Economic pressure and procedural opportunity do not, by themselves, produce fraud. Between them and the act there is a process of inner legitimisation through which the person comes to consider acceptable what he or she would previously have rejected. Here, ethics functions as a cognitive and moral barrier. A professional lacking solid moral reference points can easily transform pressure into excuse and opportunity into justification, invoking the company's interest, the temporary character of the adjustment or the need to protect jobs. By contrast, an ethically trained professional tends to recognise earlier that falsifying financial truth, even when it promises short term benefits, produces institutional and social costs greater than the apparent advantage.

International professional standards explicitly reinforce this interpretation. IESBA shows that integrity means honesty and straightforwardness in all professional and business relationships, while objectivity requires that professional judgement should not be compromised by undue influences, conflicts of interest or dependencies on persons, organisations or technologies **[9].** In addition, the NOCLAR standard develops a framework in which the professional accountant cannot turn away when he or she becomes aware of breaches of law or suspects acts such as fraud, corruption, money laundering or other serious misconduct. In substantive terms, this moves professional ethics from the passive register of proper conduct into the active register of responsibility towards the public interest **[10**].

This transition from declarative ethics to active responsibility has direct consequences for fraud prevention. If the organisation and the profession require only formal compliance, individuals will look for ways to remain procedurally compliant even when the material result is misleading. If, however, the central requirement becomes fidelity to economic truth and to the users of information, ethical responsibility requires the refusal of compromise from the very phase in which it appears as a technical suggestion, not as completed fraud. In this sense, ethics has an anticipatory function: it prevents a convenient ambiguity from becoming a stabilised distortion.

The conclusion of this first section is that ethical responsibility must be treated as a constitutive element of the anti fraud architecture. COSO and ACFE **[5]** show that fraud risk management involves governance, risk assessment, control activities, investigations and continuous monitoring. Nevertheless, the same logic suggests that each component depends on a minimum moral disposition of the actors involved, because any procedure can be circumvented through collusion, managerial misconduct or professional indifference. Therefore, ethics does not compete with internal control but makes it credible.

3. Financial Professionals, Audit and Internal Control between Compliance and Moral Judgement

In the concrete architecture of financial fraud prevention, financial professionals, auditors and internal control structures represent the interface between values and procedures. They translate, in practice, the abstract requirements of integrity into checks, approvals, reconciliations, documentation and reports. Precisely for this reason, their function cannot be reduced to a neutral technique. In the absence of ethical responsibility, the same expertise that should prevent fraud may be used to embellish, delay or conceal it. By contrast, when the profession explicitly assumes the role of protecting economic truth, technical competence and moral rigour support each other **[12]**.

The IESBA Code is explicit in stating that professional accountants must respect not only technical rules, but also standards of conduct compatible with public interest. Integrity, objectivity and professional behaviour are not mere private virtues, but foundations of public trust in financial and non-financial information. Moreover, recent revisions emphasise the idea that the professional must maintain an inquiring mindset and demonstrate strength of character when facing pressure, management's desire to obtain a certain result or the temptation to adapt excessively to context. At this point, ethical responsibility becomes inseparable from independence of judgement **[8].**

For the auditor, this tension is even more acute, because audit must be performed within a framework in which management controls a large part of the initial information flow. SAS 99 emphasises that the auditor has the responsibility to plan and perform the audit in order to obtain reasonable assurance that the financial statements are free from material misstatements caused by error or fraud. Consequently, fraud risk assessment, professional scepticism and the documentation of reasoning are not merely matters of good method, but of the very ethics of the profession **[3].** To accept management's explanations too easily or to turn scepticism into a formal ritual means abandoning the public function of auditing.

It must be observed, however, that many professional dilemmas do not appear in the form of explicit orders to commit fraud. In practice, accountants and auditors are more often faced with requests for reinterpretation, reclassification, deferral or optimisation of certain accounting treatments. Precisely here, moral judgement becomes indispensable. Technical competence can indicate what is procedurally possible. Ethical responsibility decides what is professionally legitimate. Without this filter, technical sophistication may serve not economic truth, but the construction of respectable appearances for misleading information.

Also, internal control plays a significant role, but it must be understood without illusions. COSO shows that effective controls have value beyond compliance and external reporting, because they support organisational objectives with confidence and integrity. At the same time, the COSO and ACFE guide insists that fraud risk management must distinguish between risk assessment, preventive and detective controls, investigations and continuous monitoring. This means that no control is self-sufficient. A control can be circumvented through collusion, suspended through managerial override or emptied of content if people treat it as a formality to be completed, not as a real protection of the organisation**.[5]**

In the current context, this discussion must also be extended to technology. COSO draws attention to the fact that new technological environments, including those based on artificial intelligence and automation, may increase the speed and accuracy of control, but simultaneously introduce risks regarding the integrity of operations, reporting and compliance. Therefore, digitalisation does not eliminate the ethical problem but reconfigures it. Algorithms can identify anomalies, but they cannot replace professional discernment regarding the moral and legal relevance of an irregularity, nor the courage to escalate a problem when the organisation would prefer to minimise it.

Therefore, it follows that financial professionals, auditors and internal control structures are effective against fraud only when they exercise a double responsibility: technical and moral. If they limit themselves to formal compliance, prevention becomes mimetic. If, on the contrary, they assume the role of guardians of financial credibility and of the public interest, then the control architecture gains real consistency and can stop fraud before it becomes scandal.

4. Case Stud on the Failure of Ethical Responsibility in the Financial Chain at Wirecard A.G.

The collapse of Wirecard constitutes a revealing case study for the theme of ethical responsibility as a preventive mechanism against financial fraud, precisely because it shows how little procedures are worth without a culture of dissent, authentic verification and assumption of public interest. The case is relevant not only through its financial dimension, but also through the density of warning signals that existed before the collapse and through the way in which they were absorbed, relativised or treated insufficiently by the actors called to protect the credibility of reporting. For this reason, Wirecard is not only an audit or internal control failure, but a paradigmatic sequence of the degradation of ethical responsibility across the entire financial chain.

A decisive starting point is the special investigation report prepared by KPMG for Wirecard AG. The document mentions that as early as the spring of 2018 the company's compliance department had received a report from a whistleblower signalling indications of fraudulent acts at Wirecard subsidiaries in Singapore, including the reporting of excessive revenues, the backdating of contracts and circular bookings. This chronology is fundamental because it shows that the problem did not suddenly arise in June 2020 but was preceded by internal warnings capable of triggering a much firmer preventive response. In terms of ethical governance, the first failure was not the total absence of information, but the inability to transform a warning into coherent institutional deepening and into an examination sufficiently independent **[11].**

The KPMG report is also revealing through what it says about the limits of documentation and verifiability. KPMG notes that some of the initially planned activities could not be carried out or could not be carried out in the planned form because of the lack of documentation and access to certain IT systems, that the documents made available were almost exclusively electronic copies whose authenticity could not be verified and that some materials were provided late. Furthermore, KPMG shows that it was not possible to reconstruct, based on original data, the relevant volumes and transactions of certain TPA partners, because access to the necessary data and databases had not been granted, while the cooperation of certain external partners, indispensable for the exercise, had not been obtained. From an ethical point of view, these findings indicate not only technical weaknesses, but also a problematic relationship with the very idea of independent verification.

The problems related to escrow accounts and the trustee are equally significant. KPMG shows that, according to the information provided, Wirecard did not hold annual financial statements for Trustee 1 during the investigated period, that there was no evidence regarding the assessment of its economic situation and reliability and that no evidence had been made available regarding a reliability assessment prior to appointment, including with respect to possible conflicts of interest. In addition, for the new trustee, KPMG did not receive evidence of similar assessments and observed that it was not apparent from the decision-making process whether alternatives had been analysed or whether the trustee's reliability had been examined in advance. In a strictly procedural reading, these could appear merely as due diligence deficiencies. In an ethical reading, they show that the organisation did not treat seriously enough the obligation to verify the third parties on whom assets and explanations essential to its reporting depended on.

The section of the KPMG report devoted to the Singapore allegations is equally instructive. It explicitly states that no internal control system adequate for the activities in question had been established, while weaknesses were identified in receivables management, in their monitoring, in contract management and control, and in reporting. The report also shows that, in KPMG's opinion, the absence of a customary internal control system for those activities contributed to the fact that the weaknesses underlying the allegations were not identified, while EY had also observed extensive process and control deficiencies. In other words, the procedural environment itself was below the level of robustness required for a group exposed to complex operations and already evident reputational risks.

The critical moment occurred in June 2020. On 18 June, Wirecard officially announced that auditor EY had been unable to obtain sufficient audit evidence for cash balances of EUR 1.9 billion held in fiduciary accounts, approximately one quarter of the consolidated balance sheet, with indications that false confirmations had been presented to mislead the auditor. Only a few days later, on 22 June, the company's management declared that it was highly probable that the respective balances did not exist and that previous descriptions of the so-called third-party acquiring activity were not correct. Such a formal succession is devastating precisely because it shows the distance between the willingness to cooperate and the informational reality based on which reports and opinions have been formulated for years.

The subsequent professional oversight response confirmed the gravity of the failure. APAS announced in 2023 that its panel had found breaches of professional duties in connection with the audits of Wirecard AG and Wirecard Bank AG for the years 2016 to 2018 and had imposed sanctions against the audit firm and some auditors involved **[4].** Even though this decision belongs to the disciplinary and legal sphere, it has major ethical significance, because it shows that the function of independent verification did not fulfil the expected standard in a case in which financial reporting depended on evidence and confirmations of exceptional sensitivity.

Analyzed from the perspective of the present topic, the Wirecard case offers several firm lessons. First, internal whistleblowing has preventive value only if it is integrated into a culture of constructive doubt, not into a defensive reflex of protecting image. Then, relationships with third parties relevant for reporting must be subjected to a reliability check that is, at the same time, procedural control and an ethical obligation of prudence. Thirdly, professional scepticism cannot be compensated by the quantity of documents when their source, authenticity and independence remain uncertain. Finally, internal control and audit cannot by themselves correct what organisational culture and leadership transform into convenient normality.

Therefore, the Wirecard case study confirms the central thesis of the article. Major financial frauds do not become possible only because someone falsifies data, but because around that falsification an ecosystem of tolerance, delay, incomplete verification and confusion between loyalty to the organisation and loyalty to truth is formed. Ethical responsibility could have intervened here at several points in the chain: in the initial reaction to the warning, in the assessment of the trustee, in the treatment of documentation gaps, in the exercise of professional scepticism and in the clarity with which the actors involved should have recognised that a convenient financial result never justifies the suspension of evidentiary rigour.

5. Conclusions

The present paper aims to prove that ethical responsibility is not an ornamental component of financial governance, but a decisive preventive mechanism against fraud. Recent institutional data confirm the scale of the phenomenon and the importance of reporting channels, anti fraud controls and early detection. Nevertheless, they simultaneously suggest that no procedural infrastructure can function adequately in the absence of a culture that legitimises truth, professional dissent and the timely escalation of problems. In more direct terms, financial fraud is not only a problem of control, but also a problem of institutional character.

The article has also shown that the prevention of financial fraud requires the articulation of three levels of responsibility. The first is the individual level, at which the integrity and objectivity of the professional reduce the willingness to manipulate or conceal information. The second is the professional and institutional level, at which ethical standards, audit and internal control transform these requirements into verifiable practices. The weakening of any of these levels affects the entire preventive architecture.

The Wirecard case study made this logic visible by contrast. The signals existed, the investigations existed, control mechanisms existed in certain forms, and audit existed. What was missing, however, at decisive points, was that type of ethical responsibility that transforms suspicion into rigorous verification, warning into organisational learning and formal control into refusal of apparent comfort. Therefore, the conclusion that imposes itself is that the fight against financial fraud begins earlier than investigation and deeper than compliance: it begins in the way organisations define performance, in the way leaders respond to inconvenient truth and in the strength of character of professionals who refuse to transform ambiguity into an alibi.

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