CES 5621
Příloha_č.5 Výzvy_clanek_Fraud Triangle

FRAUD MAGAZINE

Beyond the Fraud Triangle

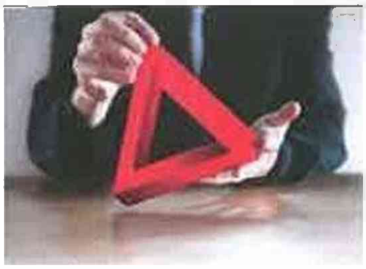
Enhancing Deterrence of Economic Crimes

JACK W. DORMINEY, PH.D.; A. SCOTT FLEMING, PH.D., CPA, CMA; MARY-JO KRANACHER, CFE, MBA, CPA/CFF; RICHARD A. RILEY JR., PH.D., CFE, CPA/CFF

September/October 2011

Fraud examiners have used the fraud triangle as a standard method since the 1950s to understand fraudsters' motivations. However, the triangle is inadequate for deterring, preventing and detecting fraud because pressure and rationalization cannot be observed and do not adequately explain every occurrence of fraud. Here are some tools that go further.

Adapted from "Beyond the Fraud Triangle," published in the July 2010 issue of The CPA Journal, copyright 2010, with permission from the New York State Society of Certified Public Accountants (NYSSCPA).



In 1978, Walmart hired Thomas Coughlin as director of loss prevention. Over the years, Coughlin worked his way up in the organization to become vice chairman, one of the most powerful positions in the organization. But in March 2005, Walmart's board of directors forced Coughlin to resign amid allegations of fraud and deceit.

In an April 8, 2005, article in The Wall Street Journal, reporters James Bandler and Ann Zimmerman wrote that "Mr. Coughlin periodically had subordinates create fake invoices to get Walmart to pay for his personal expenses. The questionable activity appears to involve dozens of transactions over more than five years, including hunting vacations, a $1,359 pair of alligator boots custom made for Mr. Coughlin and a $2,590 dog pen for Mr. Coughlin's Arkansas home."

According to the article, the total estimate for questionable transactions was between $100,000 and $500,000. In January 2006, Coughlin pleaded guilty to felony wire fraud and tax evasion charges for embezzling cash, gift cards and merchandise from Walmart.

What makes the Coughlin tale so interesting is that The Wall Street Journal reported that in the year immediately prior to his "resignation," Coughlin's compensation totaled more than $6 million.

Risking a $6 million compensation package, as well as the shame and related consequences, for a few hundred thousand dollars over a five-year period seems irrational. Coughlin's behavior also is inconsistent with the fraud triangle model, developed in the mid-20th century, because the motivation for this fraud did not appear to be caused by a nonsharable financial pressure.

The ACFE's "2010 Report to the Nations" estimates the cost of fraud to be 5 percent of businesses' annual revenues. Globally, this translates to approximately $2.9 trillion of economic losses due to fraud. In response, anti-fraud efforts have attracted the attention of a wide group of professionals: internal and external auditors, members of boards of directors and audit committees, management and regulators.
To understand why people commit fraud, many anti-fraud professionals refer to the fraud triangle. Its significance in understanding motivation is most evident in Statement on Auditing Standards (SAS) 99, "Consideration of Fraud in a Financial Statement Audit," which makes the concept central. Nevertheless, since the 1950s, professionals and academics have offered important insights that have gone beyond the fraud triangle. These extensions have enhanced professionals' ability to prevent, deter, detect, investigate and remediate fraud. Research beyond the fraud triangle — summarized in Figure 1 below — can help to better understand this societal phenomenon.

FRAUD MAGAZINE

Beyond the Fraud Triangle

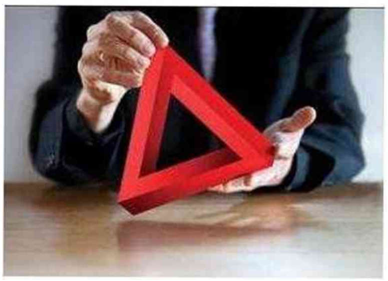
Enhancing Deterrence of Economic Crimes

JACK W. DORMINEY, PH.D.; A. SCOTT FLEMING, PH.D., CPA, CMA; MARY-JO KRANACHER, CFE, MBA, CPA/CFF; RICHARD A. RILEY JR., PH.D., CFE, CPA/CFF

September/October 2011

Fraud examiners have used the fraud triangle as a standard method since the 1950s to understand fraudsters' motivations. However, the triangle is inadequate for deterring, preventing and detecting fraud because pressure and rationalization cannot be observed and do not adequately explain every occurrence of fraud. Here are some tools that go further.

Adapted from "Beyond the Fraud Triangle," published in the July 2010 issue of The CPA Journal, copyright 2010, with permission from the New York State Society of Certified Public Accountants (NYSSCPA).



In 1978, Walmart hired Thomas Coughlin as director of loss prevention. Over the years, Coughlin worked his way up in the organization to become vice chairman, one of the most powerful positions in the organization. But in March 2005, Walmart's board of directors forced Coughlin to resign amid allegations of fraud and deceit.

In an April 8, 2005, article in The Wall Street Journal, reporters James Bandler and Ann Zimmerman wrote that "Mr. Coughlin periodically had subordinates create fake invoices to get Walmart to pay for his personal expenses. The questionable activity appears to involve dozens of transactions over more than five years, including hunting vacations, a $1,359 pair of alligator boots custom made for Mr. Coughlin and a $2,590 dog pen for Mr. Coughlin's Arkansas home."

According to the article, the total estimate for questionable transactions was between $100,000 and $500,000. In January 2006, Coughlin pleaded guilty to felony wire fraud and tax evasion charges for embezzling cash, gift cards and merchandise from Walmart.

What makes the Coughlin tale so interesting is that The Wall Street Journal reported that in the year immediately prior to his "resignation," Coughlin's compensation totaled more than $6 million.

Risking a $6 million compensation package, as well as the shame and related consequences, for a few hundred thousand dollars over a five-year period seems irrational. Coughlin's behavior also is inconsistent with the fraud triangle model, developed in the mid-20th century, because the motivation for this fraud did not appear to be caused by a nonsharable financial pressure.

The ACFE's "2010 Report to the Nations" estimates the cost of fraud to be 5 percent of businesses' annual revenues. Globally, this translates to approximately $2.9 trillion of economic losses due to fraud. In response, anti-fraud efforts have attracted the attention of a wide group of professionals: internal and external auditors, members of boards of directors and audit committees, management and regulators.
To understand why people commit fraud, many anti-fraud professionals refer to the fraud triangle. Its significance in understanding motivation is most evident in Statement on Auditing Standards (SAS) 99, "Consideration of Fraud in a Financial Statement Audit," which makes the concept central. Nevertheless, since the 1950s, professionals and academics have offered important insights that have gone beyond the fraud triangle. These extensions have enhanced professionals' ability to prevent, deter, detect, investigate and remediate fraud. Research beyond the fraud triangle — summarized in Figure 1 below — can help to better understand this societal phenomenon.

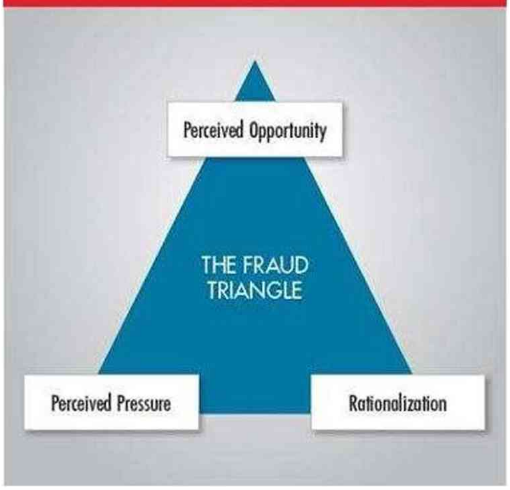
FIGURE 1: Summary of Fraud Triangle and Model Extensions

	Definition	Shortcomings	Extension	Benefit of Extension
The [illegible]				
	Convergence of perceived pressure, perceived opportunity and rationalization to facilitate fraud.	Fraud triangle is from the fraudster's perspective, so two attributes (pressure and rationalization) are generally nonobservable.	Fraud diamond: Add an assessment of capability (see the discussion of pressure and rationalization in the text).	Capability is generally a more observable attribute than pressure or rationalization.
		Does not adequately explain the actions of pathological fraudsters: predators who are better organized, have better concealment schemes and are better at interacting with auditors and anti-fraud professionals.	Recognize that predators seek only opportunity and enhance a commitment to professional skepticism, brainstorming and critical thinking.	Understanding predators better prepares anti-fraud professionals for dealing with more deliberate and nefarious fraudsters.
Attributes				
Perceived Pressure	Nonshareable financial need.	Perceived pressure is an incomplete descriptor of a fraudster's motivations.	Expand the set of fraudsters' motivations using MICE: Money, Ideology, Coercion and Ego (entitlement).	MICE provides a broader set of fraud motivations beyond nonshareable financial need.
Perceived Opportunity	Opportunity to commit and conceal the fraud act.	Does not address collusive behavior or management override.	Focus on an anti-fraud environment, such as culture, tone at the top and engaged corporate governance, in addition to traditional internal controls.	Understanding collusive behaviors better prepares anti-fraud professionals for the challenges of management override, corruption and abuse.
Rationalization	Morally defensible justification for actions seemingly out of character for the fraud perpetrator.	Nonobserveable.	Fraud Scale: Substituting integrity for rationalization.	More visible than rationalization by observing decisions and decision-making processes to assess a person's integrity.

SEMINAL EFFORTS IN FRAUD RESEARCH

Much of the current understanding of why perpetrators commit fraud is grounded in the fraud triangle. The concept dates back to the work of Edwin Sutherland, who coined the term white-collar crime, and Donald Cressey, who wrote "Other People's Money" (Patterson Smith, 1973). Cressey, a doctoral student of Sutherland in the 1940s, concentrated his research on the circumstances that led fraudsters to initially violate ethical standards and engage in their first fraudulent acts. Over the years, his findings became known as the fraud triangle, whose points represent the causal factors of perceived pressure (or nonshareable financial need), perceived opportunity and rationalization. (See Figure 2 below.)

FIGURE 2: The Fraud Triangle



PERCEIVED ('NONSHAREABLE') FINANCIAL PRESSURES

As documented in "Other People's Money," when Cressey asked individuals who had violated a trust why they had not exploited previous fraud opportunities, those who responded gave one or more of the following reasons:

- "There was no need for it like there was this time."
- "The idea never entered my head."
- "I thought it was dishonest then, but this time it did not seem dishonest at first."

Furthermore, the fraudster had concluded that his financial problem could not be shared with other individuals who might have aided in solving the problem. Some nonshareable financial pressures include:

- Sudden financial shortfalls.
- Living beyond one's means.
- Greed.
- Poor credit standing and inability to obtain credit.
- Unexpected significant medical expenditures.
- Large education expenditures.
- Family or peer pressure.

- Gambling losses.
- Cost and lack of productivity due to drugs or alcohol.
- Cost of extramarital affairs.

However, a fraud examiner generally cannot observe "pressure." This is particularly true for auditors who might not recognize the symptoms associated with pressure because they often have limited interactions with potential perpetrators and lack a baseline from which to evaluate current behavior.

PERCEIVED OPPORTUNITY

The second required attribute is opportunity. The employee must perceive a chance to commit the fraud without being detected. This opportunity can arise from several sources, including:

- Poor internal controls.
- Poor training.
- Poor supervision.
- Lack of prosecution of perpetrators.
- Ineffective anti-fraud programs, policies and procedures.
- Weak ethical culture (e.g., poor "tone at the top").

Traditionally, opportunity has been examined solely within the context of poor internal controls, especially with respect to the segregation of duties, which have garnered close scrutiny in recent years (e.g., in Sarbanes-Oxley, Section 404 requirements). More recently, the other elements of opportunity have also attracted attention from the profession.

RATIONALIZATION

Cressey indicated that a morally acceptable rationalization is necessary before the crime takes place. Because a fraudster does not view himself as a criminal, he must justify his misdeeds to himself before he ever commits them. For example, the perpetrator might rationalize his actions by thinking, "This is just a loan, and I'll pay it back after my next paycheck." The rationalization allows the perpetrator to view illegal behavior as acceptable, thus preserving his self-image as a trustworthy person. Of course, the payback of that "loan" does not occur. Like pressure, rationalization is not a readily observable characteristic because it is impossible to see what someone might be thinking.

A RECIPE FOR FRAUD

A fundamental observation of the Cressey study is that it takes the presence of all three elements — pressure, opportunity and rationalization — for the violation of trust to occur. The fraud triangle highlights what we witness in society: An individual facing a nonshareable financial challenge with perceived opportunity and a morally defensible excuse might commit fraud. Cressey's fraud triangle is a strong explanatory model that identifies the core elements that make a fraudulent act appear benign to the fraudster.

Sutherland and Cressey were able to help anti-fraud professionals understand the motivations and actions of good people who make bad choices. Nevertheless, the triangle alone is an inadequate tool for deterring, preventing and detecting fraud because two of the characteristics — pressure and rationalization — cannot be observed. As a result, other fraud models have been developed to provide alternative views of the fraud act that might aid when the fraud triangle has fallen short.

THE 'OTHER' FRAUD TRIANGLE

Because the original fraud triangle lacks objective criteria for identifying pressure and rationalization, many experts refer to a second fraud triangle, consisting of the act, concealment and conversion. This triangle focuses on proving that the act constitutes fraud by gathering evidence of the intent to deceive (i.e., concealment) and of the victim's economic damages (i.e., conversion).

THE FRAUD SCALE

The fraud scale was introduced by Steve Albrecht, Keith Howe and Marshall Romney in "Deterring Fraud: The Internal Auditor's Perspective" (Institute of Internal Auditors Research Foundation, 1984). Albrecht and his colleagues believed that fraud is difficult to predict because a reliable profile of occupational fraud perpetrators does not exist. They suggested that the likelihood of a fraudulent act could be assessed by evaluating the relative forces of pressure, opportunity and personal integrity. Pressure and opportunity are both components of the fraud triangle, but the fraud scale substitutes personal integrity for rationalization.

The fraud scale is particularly applicable to financial statement fraud, in which sources of pressure (e.g., analysts' forecasts, management's earnings guidance and a history of sales and earnings growth) are more observable. With that in mind, the fraud scale posits that when pressure, opportunity and integrity are considered at the same time, one can determine whether a situation possesses a higher probability of fraud. (See Figure 3 below.)

FIGURE 3: The Fraud Scale

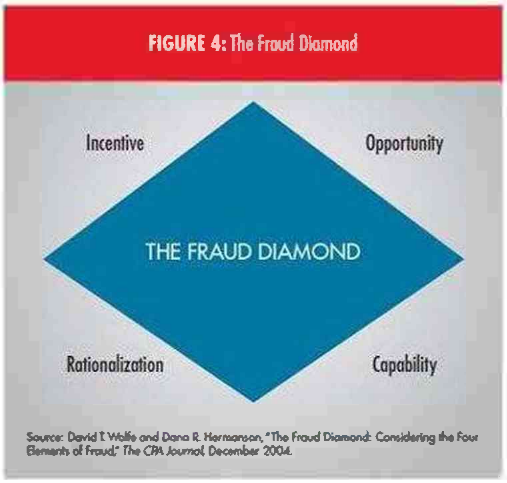
Probability of Fraud	Higher	Lower
Observed Pressure	High	Low
Opportunity	High	Low
Integrity	Low	High

The benefit of using personal integrity is that by observing both a person's decisions as well as the decision-making processes, his commitment to ethical decision making can be gauged. As noted by Zabihollah Rezaee and Richard A. Riley Jr. in "Financial Statement Fraud: Prevention and Detection" (Wiley, 2010), central to the idea of deterrence is the reliance on personal decision making and responsibility.

Violations of ethics, trust and responsibility are at the heart of fraudulent activities. Ethics addresses the rationalization and, to a certain extent, the pressure associated with fraud by considering the conditions under which a potential fraudster might consider an action right or wrong. Professionals who consider the ethics of a decision might be able to assess integrity and thus the relative likelihood of an individual committing fraud.

THE FRAUD DIAMOND: ADDING THE FRAUDSTER'S CAPABILITIES

In "The Fraud Diamond: Considering the Four Elements of Fraud" (The CPA Journal, December 2004), David T. Wolfe and Dana R. Hermanson present a four-sided fraud diamond that incorporates an individual's capability — personal traits and abilities that play a major role in whether fraud will actually occur given the presence of pressure, opportunity and rationalization. (See Figure 4 below.)



The authors suggest that many frauds, especially some of the multibillion-dollar financial statement frauds, would not have occurred without the right person with the right capabilities implementing the details of the fraud. Opportunity opens the door, and incentive and rationalization draw the potential fraudster toward the open doorway, but the individual must have the capability to walk through that opening. Accordingly, the critical question is: Who could turn an opportunity for fraud into reality? Wolfe and Hermanson suggest four observable traits for committing fraud, especially when it involves large sums of money or it continues for an extended period of time:

- Authoritative position or function within the organization.
- Capacity to understand and exploit accounting systems and internal control weaknesses, possibly leveraging responsibility and abusing authority to complete and conceal the fraud.
- Confidence (ego) that she will not be detected, or, if caught, that she will talk herself out of trouble.
- Capability to deal with the stress created within an otherwise good person when she commits bad acts.

Focusing on capability requires organizations and their auditors to observe, assess and document the capabilities of top executives, key personnel and employees who can perpetrate and conceal fraud acts.

THE MICE MODEL

Another challenge for the fraud triangle is that it oversimplifies the motivation for every fraud act. Consider the case of Thomas M. Coughlin at the beginning of this article. The risks taken by Coughlin were similar to those that other millionaire CEOs and CFOs took with financial statement fraud.

With financial reporting fraud, the first leg of the fraud triangle (perceived financial pressure) is modified to consider alternative motivators such as monetary incentives, bonuses or stock options. While top executives clearly feel pressure to deliver solid financial results, such pressure is not the same as the nonshareable financial pressure described by Cressey.

To address this issue — presented in "Forensic Accounting and Fraud Examination," by Mary-Jo Kranacher, Richard A. Riley Jr. and Joseph T. Wells, (Wiley, 2010) — Professor Jason Thomas suggests that the motivations of fraud perpetrators might be more appropriately expanded and identified with the acronym MICE: money, ideology, coercion and ego/entitlement.

Enron, WorldCom, Adelphia, Phar-Mor and ZZZZ Best provide good examples in which the convicted perpetrators appeared to be motivated by money, ego and entitlement. Less frequently, individuals might be unwillingly pulled into a fraud scheme (i.e., coercion). In the Walmart case, Patsy Stephens, a manager in the organization, sued Coughlin and claimed that she was coerced into submitting vouchers and laundering the money through her own bank account (Brian White, "Former Wal-Mart Manager Sues Tom Coughlin — for Her Own Misdeeds."). Low-level or unwilling individuals can become whistleblowers, and they often provide testimony against fraud ringleaders.

Ideology is most often associated with frauds like tax evasion and, more recently, terrorist financing. For example, a tax evader might believe the government is not entitled to his money, and terrorists might feel justified in committing fraud to finance their activities. Ideological motivators allow the end to justify the means; perpetrators steal money or participate in fraud acts or financial crimes to achieve some perceived greater good that is consistent with their beliefs.

While the MICE heuristic does not explain all fraudulent motivations, and some fit several categories, it is easily remembered. In addition, it provides professionals with a broader framework within which to consider the likelihood of fraud.

THE 'PREDATOR' VERSUS THE 'ACCIDENTAL FRAUDSTER'

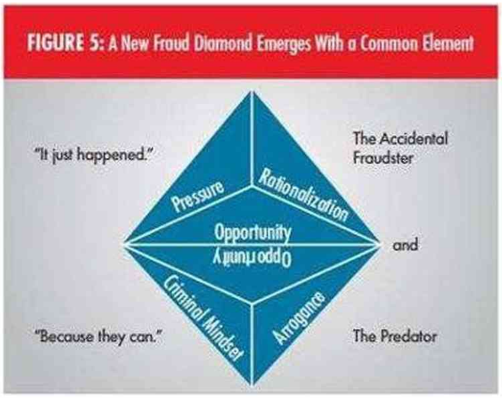
The common fraudster is usually depicted as having these characteristics: first-time offender; middle-aged; well-educated; trusted employee; in a position of responsibility; and considered a good citizen through service works at the office, in the community or at a charitable organization. This individual succumbs to pressure, develops one or more fraud schemes and commits some fraud act. In "Forensic Accounting and Fraud Examination," Kranacher, Riley and Wells characterize this type of perpetrator as the "accidental fraudster." Notwithstanding the fraud act, the accidental fraudster is considered to be a good, law-abiding person, who under normal circumstances would never consider breaking the law or harming others. The fraud triangle was created with the accidental fraudster in mind.

What if an individual had committed fraud at a prior organization? Illegal acts tend to be followed by more illegal acts, and a continuum of illegal acts defines the pathological fraudster or "predator":

- Predators seek out organizations where they can start to scheme almost immediately after being hired.
- At some point, many accidental fraudsters, if not caught beforehand, will move from the behavior characteristic of an accidental fraudster to that of a predator.
- Financial statement fraud perpetrators often appear to start as accidental fraudsters, or even just as earnings managers, and sooner or later become predators.

Predators are far more deliberate and focused than accidental fraudsters; they are better organized, have better concealment schemes, and are better prepared to deal with auditors and other oversight mechanisms. All the predator seeks is opportunity; he requires no pressure and needs no rationalization.

Instead, arrogance and a criminal mindset replace the original fraud triangle's antecedents of pressure and rationalization. A new fraud diamond emerges (see Figure 5 below) and helps to explain the motivators for both accidental fraudsters and predators. It is essential that anti-fraud research and literature recognize that predators exist and provide anti-fraud professionals with the critical tools they need to identify the distinguishing characteristics and motivations for exposing the predatory fraudster.



CONCERNS OF COLLUSIVE FRAUD AND MANAGEMENT OVERRIDE

Because the fraud triangle generally considers individuals acting alone, it does not provide a good basis for assessing the likelihood of fraud under conditions of collusion. Yet this is one of the central elements of complex frauds and financial crimes. Collusion might take place among individuals within an organization or across organizations. According to the ACFE's 2010 "Report to the Nations on Occupational Fraud and Abuse," when collusion is involved, the sizes of fraud losses increase dramatically, from $100,000 to $366,000 per incident. The losses caused by individual predators can be substantial, but when those individuals work in concert with others, the damage can be devastating and far more pervasive.

In cases of collusion, internal controls centered on segregation of duties are generally ineffective in preventing fraud and other financial crimes. Although internal controls cannot prevent collusive fraud acts, they can assist in the detection of such activities. For example, independent monitoring might reveal that internal controls have been circumvented through collusion. Management override is not inherently collusive, but most involve collusion.

Proactive fraud detection includes a search for collusion and management override. Fraud from management override can be very difficult to detect. Ultimately, the board of directors and the audit committee have an obligation and responsibility to shareholders to police management. The AICPA guide, "Management Override of Internal Controls: The Achilles' Heel of Fraud Prevention — The Audit Committee and Oversight of Financial Reporting," identifies six key actions that the audit committee should consider in performing these duties:

- Maintain skepticism.
- Strengthen committee understanding of the business.
- Brainstorm to identify fraud risks.
- Use the code of conduct to assess the financial reporting culture.
- Ensure the entity cultivates a vigorous whistleblower program.
- Develop a broad information and feedback network.

In the article, "Preventing and Detecting Collusive Management Fraud" (The CPA Journal, October 2008), Stephen E. Silver, Arron Scott Fleming and Richard A. Riley Jr., suggest that, beyond the review of management's fraud risk assessment, an audit committee should consider the following questions:

- Do the internal auditors and the audit committee have the knowledge, education and awareness of the various fraudulent management override and collusive schemes that management might perpetrate?
- Has the audit committee reviewed a comprehensive fraud risk assessment, including how collusive fraud and management override schemes are mitigated and detected?
- Have audit committee members participated in continuing education programs that can prepare them for appraising management's fraud risk assessment?
- Did the audit committee assist in the collusive and management override fraud risk assessment process, or did it rely solely on the internal or external audit group?
- Does the audit committee have direct oversight of the internal audit (as required by the New York Stock Exchange), or do the internal auditors report to management?

A proactive approach by the audit committee reinforces the tone at the top, sends a positive signal to all levels of management and acts as a fraud deterrent. The perception of available collusive fraud opportunities and the likelihood of being detected in such a proactive environment might, in fact, reduce the occurrence of most costly frauds within an organization. One can use this knowledge of collusive frauds and management override to evaluate different environments for the likelihood of fraud acts that would be undetected by traditional corporate governance mechanisms. To further assist professionals, Figure 6 (below) presents the impact of predators, collusion and override in contrast to the lone fraud perpetrator.

FIGURE 6: Fraud Assessment Tools by Fraudster Type

Anti-fraud Assessments	Accidental Fraudster	Predator	Collusion (Mgt. Override)
The [redacted]			
Perceived Pressure	Effective	Not Effective	Not Effective
Perceived Opportunity	Effective	Effective	Effective
Rationalization	Effective	Not Effective	Not Effective
The Fraud Scale: Integrity	Effective	Effective	Effective
The Fraud Diamond: Capability	Effective	Effective	Effective
MICE	Effective	Effective	Effective
Professional Skepticism	Effective	Effective	Effective
Brainstorming	Effective	Effective	Effective
Critical Thinking	Effective	Effective	Effective

A BASIS FOR FRAUD DETERRENCE

Fraud deterrence refers to creating an environment in which people are discouraged from committing fraud, although it is still possible. Because opportunity involves both access to commit the fraud and the perception that the fraudster can get away with it, one aspect of deterrence is the fear of getting caught. In "Theft by Employees" (Simon & Schuster, 1983), Richard C. Hollinger and John P. Clark found that the perceived certainty of detection is inversely related to employee theft — that is, the more likely employees think they will be caught, the less likely it is that an employee will steal.

The second aspect of deterrence is fear of punishment. The "2005 Federal Sentencing Guidelines Manual" defines deterrence as a clear message sent to society that repeated criminal behavior will increase the severity of punishment with each recurrence.

In addition, Sutherland suggests that employees, particularly those in senior positions, set the ethical tone for the entire organization. When leaders model questionable, unethical or fraudulent behavior, normally honest employees are more likely to rationalize fraud. Sutherland's theory holds the converse to be true.

Deterrence is usually accomplished through a variety of efforts associated with internal controls and anti-fraud programs that create a workplace of integrity and encourage employees to report potential wrongdoing. Fraud deterrence can also be achieved through the use of continuous monitoring and auditing software tools.

Anti-fraud techniques and controls include:

- An ethical tone at the top.
- A meaningful code of conduct.
- Open communications with employees, vendors, suppliers and customers.
- Employee activity monitoring.
- Hotlines.
- Whistleblower protection.
- A protocol for punishing perpetrators.
- The monitoring of contractual parties.
- Proactive fraud auditing.

These items are included as part of a checklist shown in Figure 7 below. The deterrence fabric includes all corporate governance professionals, including the board of directors, audit committee, top management and external and internal auditors.

FIGURE 7: Fraud Deterrence Checklist Focusing on Fear of Getting Caught and Fear of Punishment

Anti-fraud controls to increase fear of getting caught (reduce perception of opportunity)	
Proper controls design	❑
Controls operational as designed	❑
Continuous monitoring	❑
Auditing software tools	❑
Punishment protocol	❑
Open communications with employees, vendors, suppliers and customers	❑
Proper employee activity monitoring	❑
Effective tip hotlines	❑
Whistleblower protections	❑
Monitoring of contractual parties	❑
Anti-fraud environment to deflate possible rationalizations	
Proper tone at the top	❑
Strong, ethical corporate culture	❑
Workplace of integrity	❑
Meaningful code of conduct	❑
Anti-fraud training programs	❑

The notion of deterrence tends to address two aspects of the fraud triangle: opportunity and rationalization. When controls and anti-fraud programs are introduced as deterrents, the fraudster perceives that the opportunity to commit and conceal fraud has been reduced or eliminated.

The fraudster's rationalization may be deterred or reduced through training programs and a strong corporate culture that command a high ethical standard. Deterrence efforts are observable and can be used to assess the likelihood of fraud. The Figure 7 checklist is a way to assess anti-fraud efforts aimed at addressing opportunity and rationalization.

Understanding who commits fraud —and how and why it is committed — will enhance a professional's ability to prevent, deter, detect and investigate fraud.

Jack W. Dorminey, Ph.D., and **A. Scott Fleming**, Ph.D., CPA, CMA, are assistant professors of accounting at West Virginia University, Morgantown,
W.V.

Mary-Jo Kranacher, MBA, CFE, CPA/CFF, is the ACFE endowed professor of fraud examination at York College of the City University of New York (CUNY), Jamaica, N.Y.; editor-in-chief of The CPA Journal and president of the Institute for Fraud Prevention.

Richard A. Riley, Jr., Ph.D., CFE, CPA/CFF, is a Louis F. Tanner Distinguished Professor of Public Accounting, also at West Virginia University. He is chair of the ACFE Higher Education Advisory Committee, vice president of operations and research for the Institute for Fraud Prevention and editor of the Fraud EDge column in Fraud Magazine.

Reviews

By Richard_Riley

By Colleen_67
Excellent article! Finally addresses the chronic perpetrators! I use this in my presentations!

By Mohammad
Simply great. It was important to add the fact that the one who is capable of talking his or her way out very confidently - is a red flag! in addition to the fraud triangle elements. I would like to thank the contributors.

By Birzeit Consulting ME
This is one of the best well-written articles about this subject. I would like to thank all who contributed to this article as it is an addition to the experts' arsenal in fighting fraud and corruption.

By p47koji
Good stuff!

By Kriz
Great article

By Angel
Great updated information.

By Kimberly_2

By Charles_73
very informative piece

By Richard_64
This is a leap forward in the research on "why people commit fraud" I will quote this article in the graduate course I teach at UW Milwaukee on Fraud Examination.

By Jonathan_14
Marks has been saying this for years. This article is further proof of his theory. http://bit.ly/fraudpentagon

By Rinri

Association of Certified Fraud Examiners Global Headquarters
716 West Ave | Austin, TX 78701-2727 | USA | FraudMagazine@ACFE.com