

THE FRAUD TRIANGLE

A MODEL FOR UNDERSTANDING WHY PEOPLE COMMIT FRAUD

The Fraud Triangle model, developed by famed criminologist Donald R. Cressey, is useful in understanding the circumstances and rationale behind occupational fraud. How can the damaging acts of an employee be explained?

> OPPORTUNITY

Potential fraudsters identify an opportunity to use/abuse their position of trust for personal gain and they believe they have a low risk of getting caught in the act.

Opportunities stem from...

- Weak internal controls
- Poor security
- Unchecked management access
- Low likelihood of detection
- Lack of policy enforcement
- Uncontrolled vendor relationships

Opportunity can sway the otherwise honest.

> INCENTIVE

Need and greed are common incentives for committing fraud. When coupled with opportunity, the temptation can be all too great.

Common pressures that lead to fraud:

- Financial difficulties
- Living beyond means
- Control issues, unwillingness to share duties
- Divorce/family problems
- Wheeler-dealer attitude
- Unusually close association with vendors

> RATIONALIZATION

Some individuals possess an attitude or set of ethical values that allows them to knowingly and intentionally commit a dishonest act. Others may be able to rationalize a fraudulent act as being consistent with their personal code of ethics.

Common rationalizations:

- “I was only borrowing the money.”
- “I was entitled to the money.”
- “I had to steal to provide for my family.”
- “I was underpaid; my employer cheated me.”
- “My employer is dishonest and deserved to be fleeced.”

(Source: ACFE)

6 WAYS TO COMBAT FRAUD

The best way to prevent employee fraud is to adopt practices that will decrease opportunity and incentive. Here are 6 ways to strengthen your risk posture in order to reduce the risk of fraud.

- > Form internal audit programs
- > Establish a code of conduct
- > Conduct pre-employment screening
- > Perform management reviews
- > Screen suppliers and third parties
- > Watch for "red flag" fraud indicators