

## Risk

"Torture the data, and it will confess to everything."

— Ronald Coase

### Combatting Fraud with the 'Fraud Triangle'

With so many fraud cases making the news headlines on a regular basis, the economic and social impact of fraudulent behaviors cannot no longer be downplayed by governments and corporate organizations. The question is, what can be done to deal with this issue effectively. First, we need to clarify what we are talking about so in order to ensure that we all have a clear common understanding of the meaning of Fraud.

***Fraud** is about deception; it is acting dishonestly in order to gain or give an advantage. It usually consist of a false representation of a material fact or of a person—whether by words or by conduct, by false or misleading statements, or by concealment of what should have been disclosed—that is intended to deceive another into parting with something of value or to surrendering a legal right. (it include acts of bribery, cronyism, sleaze, nepotism, corruption, favoritism, etc).*

What do psychologists, criminologists and social scientists say about human behavior in relation to ethics and fraud?

They generally agree that human behavior is the product of a complex interaction among a wide range of factors. You might find it quite disheartening that most experts agree that pretty much anybody could potentially engage into unethical and even fraudulent behaviors provided that certain set of circumstances or factors are present in a given situation. Understanding what are those particular circumstances or factors is essential to prevent or investigate Fraud cases. Some of those factors are personal to the individual and others are related to the environment in which the individual evolves. For the personal-related factors, we would be asking why certain people might be more or less inclined to commit fraud depending on personality types, self-interests, psychological programming, social background, value system and so on. While for the environment-related factors, the question would be what are the crime opportunities available, such as presence of easy and vulnerable targets, lack of physical protection, weak controls and oversight, lenient attitudes towards crime and uncooperative witnesses.

Hence, it will be very useful to have a recognized fraud risk assessment model that explicitly structure the analysis around those key circumstances or factors.

### A Risk Assessment and Management Model: The Fraud Triangle

The Fraud Triangle, developed by American Criminologist Donald Cressey, is one of the models that can help us understand what are the circumstances or factors mentioned earlier. In short, the Fraud Triangle model postulates that unethical and fraudulent behaviors are very likely to occur if the following 3 factors are present in a given situation:

**1 PRESSURES:** The person is under very strong financial or work-related pressures (needing money, achieve targets) or it is in his self-interest to break the rules (hiding mistakes, gaining something).

**2 OPPORTUNITIES:** The person has by himself (or with accomplices) the authority and the means to take whatever actions needed to make the cheating possible. The person must also believe that he can conceal his actions to avoid being caught, for example, due to a weak management control system and a permissive organizational culture.

**3 ETHICAL RATIONALIZATION:** Finally, because practically nobody likes to think about himself as a fraudster, he therefore must be able to rationalize his unethical or fraudulent behavior to be somewhat congruent with commonly accepted moral principles.

The Fraud Triangle has seen countless applications in practical cases and works well to explain the WHY & HOW people can be tempted to act unethically or even to commit a fraud. It also provides a framework on how to prevent, detect and manage unethical or fraudulent behaviors in organizations (from a CEO making fraudulent statements down to a clerical staff stealing company equipment). Hence, based on the findings of a Fraud Triangle assessment, we are able to develop a pretty comprehensive and effective Ethical Compliance and Fraud Risk Management programs.

**Source:** RIMAN, Wikipedia, Marcos Ronez, Donald Cressey

### RIMAN Upcoming Programmes

Internal Liquidity  
Adequacy  
Assessment Process  
(ILAAP)

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