

Fraud examination essay sample

[Psychology](#), [Motivation](#)



People can be motivated to commit fraud because of financial pressures, vices, or because of work-related pressures. As well, perpetrators of fraud can be motivated by a perceived opportunity to commit fraud and the ability to rationalize that what they are doing is not wrong. Their motivations are usually combined into the fraud triangle of perceived pressure, perceived opportunity, and rationalization.

The fraud triangle includes three elements that almost always must be present in order for someone to commit fraud: a perceived pressure, a perceived opportunity, and some way to rationalize the fraud as acceptable. The fraud triangle is important because it helps us to determine the motives, reasons, and opportunities that someone had in committing fraud. By using the fraud triangle, we can better focus on areas in an organization that will help us detect and prevent fraud.

The fraud scale illustrates the relationship between the three elements of the fraud triangle. It shows that perceived pressure, perceived opportunity, and rationalization are interactive. In other words, the greater the perceived opportunity or the more intense the perceived pressure, the less rationalization it takes to motivate someone to commit fraud. Likewise, the more dishonest a perpetrator is, the less opportunity and/or pressure it takes to motivate fraud.

Many factors provide opportunities for fraud including the inability to judge the quality of performance; failure to discipline fraud perpetrators; lack of access to information; ignorance, apathy, and incapacity; and lack of an audit trail.

Nearly every fraud involves the element of rationalization. Most perpetrators are first-time offenders who would not commit other types of crimes.

Rationalizing helps minimize the perceived dishonesty of their acts. Common rationalizations include:

12. Fraud perpetrators use power to influence and persuade individuals to participate in fraud. Fraud perpetrators can get potential co-conspirators to join the fraud by promising a reward or benefit (reward power), by following the orders of a person who is in a position of authority (legitimate power), by making the potential recruit feel fear for not joining the fraud scheme (coercive power), or through deceiving someone because the potential recruit has a lack of knowledge (expert power). Finally, perpetrators can get potential perpetrators to join the scheme through the influence of a relationship (referent power).

Short Cases

3. Segregation of duties and/or independent checks. With respect to separation of duties, various functions should be assigned to different people. If two separate individuals performed the record keeping and physical handling of inventory, the opportunity for theft would be greatly reduced. With respect to independent checks, test counts of his record keeping could be performed.

4. Adequate document and records. A well-designed document should be formatted so that it can be handled quickly and efficiently. For instance, the

document should identify who created the document, when the document was created and who authorised the creation of the document.

Case 2

While many people would question whether the accounting is appropriate, there is a ready market for the refined products, and both the selling prices and the cost of refining the oil can be reasonably quantified or determined. This is a good case to debate and provides students with experience regarding the impreciseness of accounting rules. In this instance, experts for the plaintiffs argued that the treatment was inappropriate, while experts for the defense argued that the treatment was appropriate. There are many examples concerning revenue recognition, inventory, and other issues where the proper accounting treatment is not absolutely determined. These examples show that accounting is not an exact science. However, aggressive accounting often is motivated by pressure to “cook the books” and is a precursor to and warning of fraud. It certainly was in this case.

Read the KPMG Survey and PWC survey of fraud in Australia and answer the following questions:

1. Is the occurrence of fraud increasing or decreasing?

This is difficult to measure because surveys can only provide indicators of the fraud that has been detected. It is likely that not all firms that were victims of fraud responded to the survey. Fraud is a persistent fact of life for Australian business (PWC, p2). The average number of frauds increased from 530 in 2008 to 813 in 2010 (KPMG, p4). That's around 53.40% increase! In

terms of value, losses from fraud increased from \$301. 1M to \$345. 4M (KPMG, p2.). That's an increase of around 14. 71% in value. Likely that the GFC may have exposed more fraud (Kirby, 2011).

2. Why is ' fraud' a significant problem?

Costly for business. Can be difficult to maintain margins and competitiveness, for example Clive Peeters Ltd. Victims of fraud are individuals, business and government.

3. What are the major factors contributing to fraud?

Refer KPMG, p14, Fig 4. 9. Internal control problems are prevalent.

4. What are the most common frauds? Why?

Theft of cash is the most common in terms of frequency and scale of loss incurred (KPMG, p9). This is because cash is easy to steal, conceal and convert.