



## A Look at the “Fraud Triangle” and Beyond

Occupational fraud continues to wreak havoc on businesses around the globe, with annual losses for the typical organization estimated by the Association of Certified Fraud Examiners at 5% of revenues. Fraud experts have long suggested that the presence of three conditions, known as the “fraud triangle,” greatly increases the likelihood that an organization will be defrauded. And, over the years, some have suggested additions to the triangle.

### Classic Shape

The classic fraud triangle, as conceived by criminologist Donald Cressey, consists of:

**Pressure.** A perpetrator experiences some type of pressure that motivates the fraud. Pressure can come from within the organization — for example, pressure to meet aggressive earnings or revenue growth targets. Alternatively, the pressure could be personal, such as the need to maintain a high standard of living or pay off debt from credit cards, medical bills or gambling.

**Rationalization.** Perpetrators must be able to mentally justify their fraudulent conduct. They might tell themselves that they will pay back the money before anyone misses it, or reason that:

- They are underpaid and deserve the stolen funds;
- Their employers can afford the financial loss;
- They will lose everything (or someone) if they do not commit fraud;

- “Everybody” does it; or
- No other solution or help is available for their problems.

Most employees who commit fraud are first-time offenders who do not view themselves as criminals but as honest people caught up by circumstances beyond their control. By rationalizing, perpetrators overcome ethical barriers that generally guide their conduct.

**Opportunity.** Without opportunity, even motivated and rationalizing would-be perpetrators cannot commit fraud. Occupational thieves exploit perceived opportunities that they believe will allow them to go undetected. Poor internal controls, weak management oversight and ineffective or nonexistent audits all create opportunities for fraud. Note that the opportunity section of the triangle represents the best avenue for preventing fraud because it is within an organization’s control.

### New Dimensions

Since Cressey’s original fraud configuration, other experts have proposed expanding the conceptual framework to account for societal influences, integrity, arrogance, competence, personal greed and employee disenfranchisement. But perhaps the most widely supported addition is what is being called capability.

Not every employee with motivation, rationalization and opportunity commits fraud. Some people, the theory goes, have a mindset that makes them more able to commit ethics violations or break laws without experiencing the guilt or

stress that might afflict others. Capability comprises a range of considerations, including position, intellect, confidence, resilience to stress or guilt and ability to coerce and cajole others.

Fraud perpetrators with characteristics matching the original motivation/rationalization/opportunity triangle are categorized as “accidental fraudsters” who would not commit fraud in the absence of motivation. Those on the side of the criminal mindset/arrogance/opportunity triangle are deemed predators, or pathological fraud perpetrators. These individuals require only opportunity.

### **Red Flags Not Proof**

It's important to remember that the presence of the conditions discussed above does not constitute proof that fraud has been committed — or that an individual will commit fraud. Rather, the fraud triangle and its variants are designed to help organizations identify risk and understand the importance of eliminating the perceived opportunity to commit fraud. If one of your clients suspects fraud, engage a forensic accounting expert to conduct a thorough investigation.

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