

Osborne Books

Internal Accounting Systems and Controls

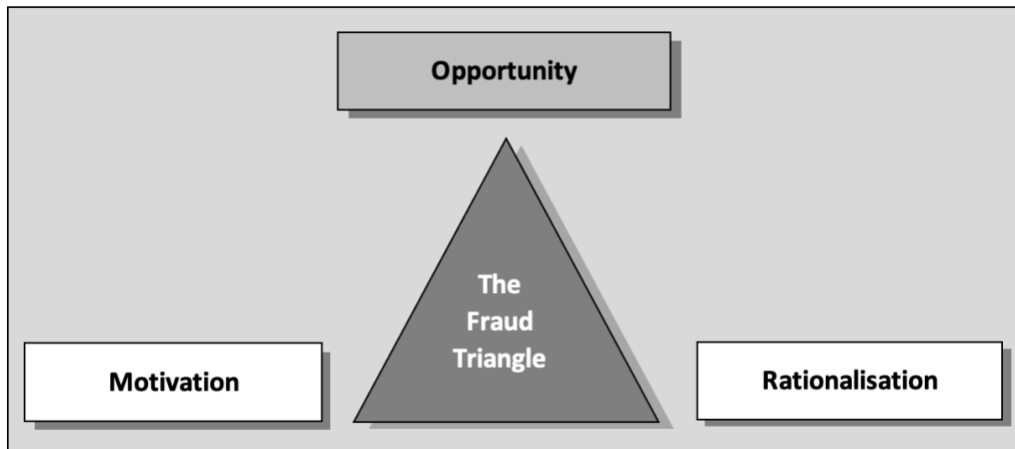
Fraud triangle supplement

This supplement provides an explanation of the fraud triangle, which AAT has confirmed may be tested as part of the AQ2022 assessment for Internal Accounting Systems and Controls.

This subject follows non-financial fraud on page 64 of the Internal Accounting Systems and Controls Tutorial.

the fraud triangle

Fraud does not occur all the time, so what conditions lead to a higher risk of fraud? A model often used to explain an employee's decision to commit fraud is the fraud triangle. There are three elements of the fraud triangle, all of which need to be present for fraud to take place.



opportunity

Where there are existing, or new, weaknesses in control systems, employees may identify ways to commit fraud. For example, if staff levels are reduced, there may no longer be segregation of duties between invoicing for sales, issuing credit notes, and recording customer receipts. This then creates an opportunity for an employee to take payments received from customers and cover their tracks by issuing credit notes to cancel the invoice.

motivation

An employee may be motivated to commit fraud due to financial pressures they have, or by incentives, such as bonuses. If a staff member has personal, financial problems, they may be motivated to commit fraud at work to obtain money, either temporarily or permanently, as a way of solving this. Management who are paid bonuses might commit fraud to ensure that they achieve what is required to receive the bonus payment. For example, fraudulently inflating sales figures to achieve a sales target.

There may be situations where staff believe their job is at risk if they do not achieve certain targets, which causes them to falsify data or test results. For example, employees of a car manufacturer might falsify data on the test results of vehicle CO₂ emissions to achieve targets, even if the cars are not actually achieving these results.

rationalisation

An employee who commits fraud, will want to be able to justify why they do it. Their justification might be that they feel unfairly treated by the organisation they work in, over-worked, and/or underpaid. They may also justify it if they believe that other employees are committing fraud, particularly management. Here, their rationale might be: 'if he/she does it, why shouldn't I?'

Sometimes, employees have the misplaced idea that by committing fraud they are actually doing something for the good of the business by enabling it to survive for longer. Fraudulently reporting inflated profits in one year may give management time to trade through difficult conditions and improve profits in the following year. Management may intend to reverse the fraudulent transactions at a later date, but this can only be done if the business is still trading! At the end of the day, there is no valid reason to justify fraud.