



# Effects of the fraud triangle on students' risk assessments

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## Abstract

This study is motivated by Bailey's [Bailey, C. D. (2004). An unusual cash control procedure. *Journal of Accounting Education*, 22, 119–129]. A disappointing 89% of Bailey's 502 students appear to have overestimated the risk of an asset misappropriation. This study presents the results of two quasi-experiments that test whether students' risk assessments are affected by the type of model presented to them immediately preceding their risk assessments. One group was provided an overview of the widely used Committee of Sponsoring Organizations (COSO), *Internal Control—Integrated Framework* and the second group was provided a briefing on the *Fraud Triangle*, a model originally developed by criminologist, Donald R. Cressey (1973). As predicted, students who were provided an overview of the fraud triangle committed fewer Type I and Type II errors than students who were provided an overview of COSO. The results from this study contribute to the literature on risk assessment by demonstrating how the fraud triangle could, in some situations, lead to better risk assessments.

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## 1. Introduction

Based on studies involving in-depth interviews with more than sixteen hundred undergraduates, Light (2001) concluded that good professors effectively convey principles of

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their chosen discipline. However, professors who are remembered and valued the most are those who are able to teach students to think like professionals. For example, accounting professors who teach students to think like accountants are, according to Light, more exciting and stimulating than professors who merely review material that could easily be read in a textbook. Furthermore, if accounting students are taught to think like accountants, they should be better able to handle the complexities and uncertainties of their work environment after they graduate. Instructional resources that engage accounting students to “think like accountants” could therefore go a long way toward narrowing what Albrecht and Sack (2000, p. 3) refer to as the widening “gap between education and practice.”

Simply stated, *good professors* disseminate basic and valuable information. *Better professors* disseminate basic and valuable information, but also teach students to think like professionals. However, arguably the *best professors* are ones who are able to cross the boundaries of one isolated discipline (e.g., accounting) and teach students integrative and interdisciplinary perspectives.<sup>1</sup> For example, an interdisciplinary approach to fighting the problem of fraud could engage students to think about the problem through the lens of an accountant (teaching students to think like accountants), but also to think about the problem of fraud from alternative frames of references, such as from a lawyer’s perspective, a criminologist’s perspective, and/or a psychological perspective. Advocates of an interdisciplinary approach would claim that individuals will be better accountants if they question the inherent limitations of their own frame of reference by contrasting, reconciling, and viewing the problem of fraud from the lenses of other specialized disciplines committed to fighting the growing problem of fraud in society.<sup>2</sup> Accordingly, this study attempts to demonstrate how one such alternative perspective (i.e., a criminological perspective) can be useful in understanding two selected cases.

This study compares the risk assessments of students who were taught a criminological perspective to students who were taught only an accounting perspective. As expected, the group of students who were taught a criminological perspective made better risk assessments than the group who were taught only an accounting perspective.

## 2. Background

Bailey (2004) presents an interesting real case described as an “Unusual cash control idea”. The case involves a group of talented street performers who, despite the lack of explicit accounting control activities, have successfully sold their CDs without significant asset misappropriations. Neither cash nor the CDs appear to be misappropriated by spectators or anyone else who may simply be passing by. The street performers, commonly referred to as buskers, simply rely on their spectators’ honesty and expect them to leave the correct amount of cash and only remove CDs they have properly paid for. Hence,

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<sup>1</sup> Light (2001, p. 126) states that “Many seniors single out interdisciplinary classes as the courses that meant the most to them”. In addition, he also claims that “Students praise faculty members who go out of their way to create something of a multidisciplinary experience, even in a traditional class within a discipline. To do this, a professor often creates a task that draws on the different expertise and backgrounds of class members”.

<sup>2</sup> See Newell (1998) and Dille (2002) for a literature reviews on the professionalizing of interdisciplinary education.

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