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Challenges to the fraud triangle: Questions on its usefulness

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ABSTRACT

Fraud is increasing with frequency and severity. In this paper, I explore the assertion of the fraud triangle as a useful practitioner framework employed to combat fraud. This paper is anchored through Fairclough's critical discourse theory, and is supported with evidence from three accounting fraud cases. The findings indicate that the Association of Certified Fraud Examiner's (ACFE) perpetuates a discourse that presents a restricted version of fraud. Fraud is a multifaceted phenomenon, whose contextual factors may not fit into a particular framework. Consequently, the fraud triangle should not be seen as a sufficiently reliable model for antifraud professionals.

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1. Introduction

The financial crisis of 2001 witnessed an unprecedented level of corporate accounting frauds² involving some of America's largest corporations. Executives from Enron, Tyco, WorldCom, Global Crossing, Quest, Aldelphia and ImClone were all tried and convicted for committing one form of accounting fraud or another. The litany of scandals tore at the 'soul' of the American economy, and "many loyal workers who had invested in company 401 (k)s, pensions, and mutual funds [saw] their life savings wiped out" (Gray, Frieder, & Clark, 2005, p. 2).

Seven years later, in 2008, the global financial system was struck by a global financial crisis ("GFC") that changed the financial and economic landscape of the world (Sikka, 2010a). Immediately after the GFC, a litany of corporate accounting scandals began to make headlines. A few examples of these scandals included that of Bernard Madoff's ("Madoff") scheme that broke out in 2008. Madoff was convicted and sentenced to 150 years in prison for an elaborate Ponzi scheme in which he swindled investors of over \$50 billion (Henriques, 2009). There was also the case of a senior Hong Kong executive (and partner) at Ernst & Young ("EY") who, in 2009, was detained for suspected forgery linked to the bankrupt electronics maker Akai Holdings Ltd. EY later entered an out of court settlement in the amount of \$1 billion for a negligence claim with Akai Holdings Ltd (Ng, 2009). Similarly in 2009, a London-based accountancy chief from KPMG was sentenced to four years in jail for swindling over \$900,000 of the firms funds for personal use (Moult, 2009).

Fast forward to 2014 and there are reports alluding to the continued rise in accounting fraud. A Global Economic Crime Survey ("GECS") conducted by PricewaterhouseCoopers ("PWC") found that accounting fraud is on the rise and poses a

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² "Corporate accounting fraud", "corporate fraud", and "fraud" will be used interchangeably throughout the paper. Given the nature of the paper, it was not necessary to disentangle the terms since all of three were central components of the research methodology undertaken (also see Lynch et al., 2004, p. 397).

serious threat to business (PWC, 2014). The GECS noted that unless fraud control and prevention measures are implemented, businesses will be at greater risk of irreparable damage from fraud.

While the exact statistics are not known, it is estimated that the number of fraud examiners and auditors trained to detect fraud has exploded since the GFC. The Association of Certified Fraud Examiners (“ACFE”), arguably the world’s largest anti-fraud organisation and premier provider of anti-fraud training and education, now has over 70,000 members worldwide. To investigate accounting chicanery and other frauds, the ACFE advocates that auditors and other anti-fraud professionals use the fraud triangle as a standard investigative method to understand the factors that cause people to commit fraud.

The fraud triangle’s decomposition has its origin in Cressey’s (1953) book, *Other People’s Money: A Study in the Social Psychology of Embezzlement*. Cressey’s (1953) fraud triangle consists of three elements: pressure, opportunity and rationalisation, all of which must be present in order for a crime to be committed (Cressey, 1953, p. 30). Support for the fraud triangle comes from audit professionals and standard setters who argue that investigators analysing financial statements will be able to quantify the *pressure* (as in inflated revenue or overstated net income) that led to the fraud. They will also need to assess the *opportunity* to commit the fraud with reference to weak or absent adequate internal controls and the *rationalisation* techniques used to justify the fraud (see AICPA, 2002; Auditing Standards Board, 2002 emphasis added).

Concerned about the erosion of ethical standards within the accounting profession, the American Institute of Certified Public Accountants (“AICPA”) in 2002 and the International Federation of Accountants (“IFAC”) in 2006, followed the ACFE’s footsteps and turned to Cressey’s (1953) work on the fraud triangle for potential explanations of the frauds (Donegan & Ganon, 2008, p. 3; O’Connell, 2007, p. 733–784). The adoption of the fraud triangle is most evident in the *Statement on Auditing Standards (SAS) No. 99: Consideration of Fraud in a Financial Statement Audit*, which makes the concept the standard method for understanding fraudulent conduct (Auditing Standards Board, 2002).

Despite the efforts of the AICPA and the ACFE, it would appear that the present state of fraud prevention is one of abject failure (Cooper, Dacin, & Palmer, 2013; Free & Murphy, 2013; Morales, Gendron, & Guénin-Paracini, 2014; Neu, Everett, & Rahaman, 2013; Sikka, 2010a). Fraud continues to be a problem to the point where the standard setters do not have anything convincing to say about fraud prevention and prescribe policies to put in place to reduce fraud (Dorn, 2010; McBarnet, 2006; Power, 2013; PWC, 2014).

In this paper, I explore the claim of the fraud triangle as a useful framework to combat fraud. Using evidence from three cases, I argue that the fraud triangle is not an adequate tool for detecting fraud. In particular, I use Fairclough’s (1992, 1995a, 2003) version of critical discourse analysis (“CDA”) as a theoretical anchor and argue that the fraud triangle endorses a body of knowledge that lacks the objective criteria required to adequately address every occurrence of fraud. One key emphasis is the body of knowledge endorsed by the ACFE that associates fraud with moral issues (Morales et al., 2014, p. 177; also see Albrecht and Albrecht, 2004, p. 5). The ACFE’s discourse conceptualises fraud as a dishonest act perpetuated by an individual for personal enrichment (Wells, 1997, p. 3–6). By this definition, fraud is rooted in the individual’s frail morality (not as an effect of wider societal influences), which requires surveillance efforts to be geared towards individual ethics by the organisation (Morales et al., 2014, p. 177).

1.1. Why CDA?

This paper illustrates a critical approach to the analysis of fraud discourse in the form of CDA. The systematic exploration of the often opaque relationship of causality between discursive and sociocultural practices gives CDA a critical edge in the study of fraud discourse, especially as it builds on the premise that discursive practices are constitutive of and are constituted by wider societal practices (Hussein, 2008, p. 132). An analysis anchored within the interface of CDA allows researchers to uncover opaqueness and power relationships embedded in fraud discourse (see Fairclough, 1995a, p. 132–133). In this sense, the use of CDA allows me to utilise a wide range of sources to analyse the ACFE’s discourse on fraud more systematically and in more detail from a linguistic perspective (see Fairclough, Graham, Lemke, & Wodak, 2004, p. 3). Focusing on the dialectic relationship between the ACFE’s narrative and its audience, CDA addresses how the content and the linguistic features of discourse influence and are in turn influenced by the contexts of discourse production, distribution, reception and adaptation, as well as the wider anti-fraud context in which the discourses are embedded (Merkl-Davies and Koller, 2012, p. 180).

A CDA’s framework views language as an “interactive process of meaning-making” (Fairclough, 2003, p. 10) through which the discourse disseminated is used to exert power and dominance in the anti-fraud market (see also Van Dijk, 1993, p. 249). Taken together, CDA provides a framework that can be used to study texts and discourses on fraud disseminated by the ACFE and identify connections between them (Cortese, Irvine, & Kaidonis, 2010). A CDA’s framing facilitates a critical understanding of a particular discursive process of the acts that come to be seen as fraud and the control measures advocated to minimise their occurrences (see Braithwaite & Fisse, 1987, p. 221; Friedrichs, 1996, p. xvii; Power, 2013), rather than just searching for information for the sake of it (Cortese et al., 2010, p. 79). By anchoring the analysis through a CDA framework that specifically searches for connecting relationships, the potential to expose the distorted dialogue in which fraud is represented and evaluated becomes much greater (Merkl-Davies & Koller, 2012, p. 181).

The application of CDA centres on the argument that the fraud triangle represents a framework determining the causes of fraud to be rooted in individual behaviour (Cooper et al., 2013, p. 440; Morales et al., 2014, p. 171). Analytically, this discourse confirms that the consciousness of wrongdoing is an objective phenomenon and that there is a universal consensus on what constitutes fraud (Cooper et al., 2013, p. 440). Particular attention is given to the discourse in which ‘fraud’ is conceptualised

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