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Conversations with inmate accountants: Motivation, opportunity and the fraud triangle

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ABSTRACT

The purpose of this study is to examine the factors that influence accountants to commit fraud and to understand the function of professional roles in the advent of fraud. The data in this study were collected in interviews with four small groups of male accountants who were serving a custodial sentence for committing fraud and related offences. In sum, the evidence in this study suggests that the offenders used their positions as professional accountants to deceive others when they were confronted with a special crisis that resulted in their criminal behaviour.

1. Introduction

Research on fraud in accounting is firmly placed in the context of auditing which emphasises audit risk and the role of auditing and internal controls in the prevention and detection of fraud (Asare & Wright, 2004; Bierstaker, Brody, & Pacini, 2006; Moyes & Baker, 2003; Patterson & Noel, 2003; Payne & Ramsay, 2005; Pinkus, 1989; Ramos, 2003). Research that examines the practice and effectiveness of fraud prevention and detection is premised on the auditor's obligation to detect materially misstated financial statements. However, this research presupposes that accountants are not party to such behaviour, causing researchers to overlook accountants' involvement in white-collar crime or the potentiality of fraud committed by accountants. Interestingly, the dearth of such research occurs against a background of events in which accountants and executives use accounting or their position to perpetrate and conceal fraud (ACFE, 2010; Donegan & Ganon, 2008; Tinker & Okcabol, 1991). Mitchell, Sikka, and Willmott (1998) contend that comparatively little research has been undertaken on the apparent links between accountants and white-collar crime. Furthermore, positive research on fraud and criminality is predominantly focused on executive-led fraud (Piquero, Tibbetts, & Blankenship, 2005; Rossouw, Mulder, & Barkhuysen, 2000; Weisburd, Waring, & Chayet, 1995) which overlooks specific occupational roles such as accounting. This study attempts to redress these limitations by examining the role of accountants as instigators of fraud rather than controllers.

The objective of this study is to understand why accountants commit fraud and the degree to which the offenders rely on their professional roles to deceive their victims. This study will reveal the centrality of accountants' motivation to commit fraud and the extent to which crime in the profession is consistent with the psychology of fraud known as the fraud triangle. The data collected in this study provides an opportunity to appraise the veracity of the fraud triangle as a correlate of criminality in the profession by understanding the opportunities to commit fraud that lie in the management

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and manipulation of professional roles. The findings suggest that it was the professional dimensions of knowledge and trust in particular that characterised the crimes in this study. It is the dimensions that relate to the occupation of the offenders, rather than the offence, that this author regards as a matter of some significance.

This study is expected to provide a number of benefits to the community of accountants that can suffer long term damage to its social relations from deviant behaviour in the profession. A better understanding of the causes of fraudulent behaviour in the profession will help members to recognise the signs that give rise to the potentiality for fraud. Similarly, identifying the causes of fraudulent behaviour allows professional associations to incorporate into their professional development programs the skills required to alert members to the difficulties they may face in practice and articulate strategies to deal with such problems. Furthermore, a study that conveys the consequences of fraudulent behaviour will have important deterrent effects on would-be offenders. Generalisations about the extent of crime in the profession and whether it is regarded as of some significance are difficult because of the elusiveness of the data. However, irrespective of the extent of crime in the profession, it remains an important topic that has significant implications for victims of fraud as well as the collective reputation of the profession.

The remainder of this paper is structured as follows. The theoretical framework that relies on the psychological model developed to explain why people commit fraud (known as the 'fraud triangle') is outlined in section two of this paper. Section 3 describes the data collection process which relies on discourse analysis from group discussions with professional accountants serving a custodial sentence for fraud-related offences. Section 4 reports the findings followed by a discussion of the findings in Section 5. The final section concludes the paper.

2. The psychology of fraud

Research in white-collar offending has been undertaken predominantly from either a macro (social structure and strain theories) (Durkheim, 1965; Merton, 1968; Piquero et al., 2005; Rossouw et al., 2000; Weisburd et al., 1995; Zahra, Priem, & Rasheed, 2007) or meso (differential association theory) perspective (Benson, 1985; Clinard, 1990; Nichols, 2000; Piquero et al., 2005; Sutherland, 1939) to explain white-collar crime. Weisburd et al. (1995) indeed noted that research on white-collar offending has generally focused on the corporate rather than the individual offender. However, research that has the potential to improve the behavioural standards of major corporations, leads to neglect in understanding fraud committed by individual offenders. This paper is focused not through the social or organisational lenses but examines positivist notions of criminality which posit that crime is committed by individuals in response to a personal crisis or stressor such as financial strain. The criminality of the offenders in this study will be examined by focusing exclusively on their inner thoughts or belief processes, thus, providing a micro-level analysis of white-collar crime among accountants.

Current understanding on why people commit fraud is grounded in the fraud triangle, a theoretical model embedded in the study of psychology developed from the original work of Cressey (1971). Cressey (1971) argued that white-collar crimes are motivated by what he referred to as a 'non-shareable problem'. A non-sharable problem occurs when an individual is confronted with a problem or personal crisis and is unable to share their problem with friends or colleagues because of the shame the offender associates with the behaviour and the consequential effects of legal or social sanctions when the behaviour is discovered. Financial distress, loss of status, admission of fault or poor judgement, have the potential to create a non-shareable problem begetting an individual to secretly resolve their problem by stealing to avoid losing face. Cressey's (1971) hypothesis later became known as the fraud triangle (see Fig. 1) in which researchers added to motivation (a non-shareable problem) the notions of opportunity and rationalisation to explain the advent of fraud (Albrecht, Albrecht, Albrecht, & Zimbelman, 2012; Coleman, 1987, 1989; Cressey, 1971). Pressure, or motivation, provides the incentive to commit fraud; opportunity grants the means to follow through with the intention to commit fraud; and rationalisation helps the offender to deal with the cognitive dissonance associated with their behaviour. The fraud triangle, now adopted in auditing standards, provides a valuable framework to analyse individual fraudulent behaviour (Ramamoorti, 2008).

2.1. Pressure to commit fraud

Pressure or incentive motivates an individual to behave illegally. Pressure, typically arising from a non-shareable problem, is critically important in understanding the motivation in fraud. This is because an inability to share one's problems with others sufficiently motivates an offender to behave illegitimately to resolve their problem (Cressey, 1971). In contrast, rational judgment, if employed, could have aided in the solution of the problem without resorting to unlawful behaviour. Pressures that have been identified as common motivators of fraudulent behaviour (see Fig. 1) are discussed below and have been categorised accordingly: (1) financial pressures; (2) vices; (3) work-related pressures; and (4) other pressures such as a desire for material possession that reflects their more affluent counterparts (Albrecht et al., 2012; AIC & PwC, 2003). A financial strain, such as a distressed business or failed market investment(s), whether it arises from recklessness or misfortune is the catalyst that drives many offenders to commit fraud (Cressey, 1971). In an organisational context, recent literature suggests that monetary incentives such as executive bonuses combined with pressures to ensure the market receives only good news so as to retain investor confidence, can lead executives to manipulate of published financial reported in the form of earnings management (Brenna & McGrath, 2007). Closely related to financial pressure are vices such as gambling and drugs representing the second category of pressures that motivates fraud. The AIC and PwC (2003) discovered that gambling was a major motivation for fraud, second only to greed. According to KPMG (2002), the increasing incidence of fraudulent conduct