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Is There Sufficient Guidance to Detect, and Obtain a Conviction for, Occupational Fraud in Ireland?

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This dissertation is submitted for the requirements of the Degree of Masters in Business (Research), Cork Institute of Technology

by

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Ethical Declaration

The author hereby declares that, except where duly acknowledged, this thesis is entirely her own work and has not been submitted for any other degree in any third level institute.

Carmel Buttimer (Student) Date

Sylvia Dempsey (Supervisor) Date

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Abstract

Title: Is there sufficient guidance to detect and obtain a conviction for occupational fraud in Ireland?

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There has been an increased focus in the Irish media on fraud, particularly since the collapse of Anglo Irish Bank in 2007. There has however been little academic research undertaken into occupational fraud in Ireland. This study will examine whether or not the current guidance to detect and convict occupational fraud in Ireland is sufficient.

This study achieves its objective by examining the content of press articles reporting thirty-five occupational fraud cases convicted in Ireland in the period 2002 to 2013. It categorises the content of the articles using a framework developed by Cohen et al. (2010), which combines the Fraud Triangle (FT) with the Theory of Planned Behaviour (TPB). It then uses qualitative and quantitative analysis to determine if these aspects of fraud are present in the relevant auditing standard (ISA 240: The auditor's responsibilities relating to fraud in an audit of financial statements).

This study found ISA 240 sufficient in its coverage of the 'opportunity' to commit fraud, but insufficient in its coverage of the 'incentive/pressure' and 'attitude/rationalisation' elements to commit fraud. It suggests the addition of lavish lifestyle, greed, pressure from criminals, depression, concern for others and paying back for previous fraud to the examples of 'incentive/pressure' in the audit standard. It suggests the addition of sense of entitlement, no apparent regard for the crime, complicity in undertaking a fraud, weak personality, lack of business knowledge, looking out for the good of the company, charitable actions for the good of others and paying back for previous frauds to the examples of 'attitude/rationalisation' in the audit standard. Undeniably, it would be impossible to provide an exhaustive list of all circumstances under which fraud is undertaken; however by including the examples of frauds compiled in this study, further guidance can be provided to auditors.

The inadequacy of the auditing standard is not the only reason why the number of convictions for occupational fraud is low. This study finds the multifarious methods of committing fraud, the status of the fraudster, difficulties in detecting fraud, advances in technology, law and auditing standards not keeping pace, reluctance by organisations to report fraud, and the fact that predatory fraudsters target organisations and therefore not all frauds are accidental, as factors keeping the conviction rate for occupational fraud so low in Ireland.

It is important that the professional standards and the resources of those charged with detecting and prosecuting fraud in Ireland be strengthened to give further confidence in the prevention, detection, and conviction of fraud. This should lead to a reduction in the effects of fraud in organisations and in wider society.

Chapter 1 Introduction to this Research Study

1.1 Introduction

This chapter introduces this research by providing a background to the study and demonstrating how, using a review of extant literature, the researcher identified a gap in the literature. This chapter describes the research objective and the questions posed to fulfil this objective. It acknowledges the limitations of the research. This chapter closes with the provision of the structure of the dissertation.

1.2 Background to the Study

Recently there has been an increased focus on examining corporate fraud, due mainly to major financial scandals such as the collapse of Enron, Tyco and Bernard L. Madoff Investment Securities LLC in the US and Diageo Plc. and BAE in the UK. In Ireland, the Fyffe's and DCC case, Greencore and the collapse of Anglo Irish Bank have been extensively reported on in the press. PwC (2014) reported that over 26% of the companies in Ireland were victims of economic crime, which includes fraud. The CSO (2014) indicated that there were over five thousand "*fraud, deception and related crimes*" documented in the first quarter of 2014 in Ireland. These high profile cases have affected many stakeholders including shareholders, creditors and the wider society, and as a consequence public confidence in financial systems has been negatively affected (Pan *et al.*, 2011).

When fraud is uncovered, auditors are often castigated for not warning about the financial position of the companies or for failing to detect the frauds which led to collapse of the organisation (Dennis, 2010; Gold *et al.*, 2012). However the relevant auditing standard in Ireland, ISA 240 "The Auditors Responsibility to Consider Fraud in an Audit of Financial Statements (2004), highlights that it is the management of the organisation that is primarily responsible for detecting fraud and that the auditors are responsible for reassuring that the accounts present a true and fair view. It states that:

> "*the primary responsibility for the prevention and detection of fraud rests with those charged with governance of the entity and management*" (ISA 240, 2004, p. 157).

The auditor is:

> *"responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error"* (ISA 240, p.158)

The difference between actual and expected performance of the auditor is referred to in the literature as the "*audit expectation gap*" (Liggio, 1974; Dennis, 2010). Auditors utilise and rely on the auditing standards to guide their approach to their audits. It is therefore imperative that auditing standards are comprehensive and relevant to encompass as many possible situations that the auditors may encounter.

1.3 Gaps in the Literature

The three themes examined in fraud research since the 1940s are the factors, motivations and antecedents of fraud, the auditors' role in fraud detection and prevention, and the impact of advances in Information Technology (IT) on fraud (Pan *et al.*, 2011). Cooper and Dacin (2013) reviewed available research of fraud, concluding that the areas which should be emphasised are fraud in the context of not only the individual, but where it takes place, that is the firm, the industry and society in general. Hogan *et al.* (2008) and Trompeter *et al.* (2013) identified the dearth of research into methods to assist auditors detect fraud beyond "red-flags".

Cressey (1950, 1953) developed the Fraud Triangle (FT), upon which much of the work undertaken in fraud prevention and detection is predicated (Comer, 1998; Skousen *et al.*, 2009). The FT states that three elements, namely pressure, opportunity, and rationalisation, must exist for a fraud to take place. The individual elements of the fraud triangle have been studied extensively with expansions on emphasis and examples suggested. For example pressure has been expanded to include non-financial and external expectations (Koh *et al.,* 2008; Perol and Lougee, 2011), opportunity has been divided into preventative, detective and corrective (Coenen, 2008) and rationalisation was expanded to consider the personal integrity of managers (Hernández and Groot, 2007).

The Theory of Planned Behaviour (TPB) (Ajzen and Fishbein, 1974; Beck and Ajzen, 1991) has been utilised to explain the intentions underlying dishonest actions in a number of different setting and industries. Cohen *et al.* (2010) combined the FT with the TPB to construct a framework which they call the FT/TPB framework. Employing this framework, they examined evidence from the press reports of thirty-nine cases between 1992 and 2005 in the United States to highlight the behavioural traits of fraudsters. Resulting from this research they recommend additions to the US auditing standards as some of their observed behaviours of fraudster were not included in the auditing guidelines. Cohen *et al.* (2010) called for the robustness of their findings to be investigated in different cultural and institutional contexts.

> *"However, fraud is of course not limited to the U.S. and many countries have faced similar situations. It would be interesting to extend the scope of study to non-U.S. companies…. to investigate the robustness of our results in different cultural and institutional contexts*" (Cohen *et al.*, 2010, p.289).

Trompeter *et al.* (2013) described Cohen *et al.*'s (2010) research as "*novel and unique*" (p. 293) and encouraged others to use this type of methodology in the future.

Cohen *et al.* (2010) and Soltani (2014) drew attention to the importance of further analysis of European corporate fraud cases. Cohen *et al.*(2010) felt that manager's "*behaviour in fraud commitment has been relatively unexplored*" (Cohen *et al*, 2010, p. 271), noting that Europe had little research in this area. Soltani (2014) identified that the strong media coverage together with the size of the US financial markets is one of the determining factors in the extensive dialogue and investigation of corporate fraud in the United States as compared to Europe. In the case of European corporate failure cases "*there are serious deficiencies*" (Soltani, 2014, p. 252) as far as academic publications and media coverage are concerned.

This research answers these calls for research by examining the adequacy of the relevant auditing standard (ISA 240) to detect occupational fraud[1] in Ireland, utilising the FT/TPB framework. This study will analyse the content of the press reports of Irish occupational fraud cases to execute this exploratory, descriptive research objective in an Irish context.

Furthermore there appears, from the scarcity of convictions for fraud, to be a huge difficulty, not only in detecting, but also in convicting for fraud in Ireland:

> *"Ireland's record in prosecuting significant white-collar crime is far from impressive. Despite the huge banking scandals over the years, only two people have gone to jail: John Ransack and the late Patrick Gallagher. Neither was prosecuted in this jurisdiction."* (Keena, 2010, p. 23)

[1] Occupational fraud covers Fraudulent Financial Reporting (FFR) and Asset Misappropriation (AM). These are also the categories of occupational fraud included in ISA 240 "The Auditors' responsibilities relating to fraud in an audit of Financial Statements" (2004). See Appendix A.

This has motivated the researcher to examine not only the adequacy of the auditing standard to detect fraud, but also to explore the other factors that may be deterring the conviction for fraud in Ireland. The combination of these factors led to the formation by the researcher of the research objective.

1.4 Research Objective

The objective of this study is to determine:

> *Is there sufficient guidance to detect, and obtain a conviction for, occupational fraud in Ireland?*

This objective will be achieved by answering the following questions:

1. Is the auditing standard (ISA 240) sufficient to capture the breadth of extant occupational fraud in Ireland?

2. Why is it difficult to bring a conviction for fraud in Ireland?

1.5 Focus of this Research

This dissertation will focus on cases of convicted occupational fraud in Ireland in the period January 2002 to December 2013 as reported in the press. The period chosen is post the introduction of the Criminal Justice (Theft and Fraud Offences) Act 2001 in Ireland. The definition of occupational fraud used in this research is that of abuse of a person's position within an organisation for personal or corporate enrichment (Zahra *et al*, 2007; David, 2009; Wells, 2011; ACFE, 2012) through *"misuse or misapplication of the employing organisation's resources or assets*" (Wells J. T., 2011, p. 8). It will not include welfare fraud, insurance fraud, marine fraud, money laundering and counterfeiting and fraud against individuals or frauds committed against organisations by persons unconnected to the organisation.

The research will replicate the work of Cohen *et al.* (2010) in an Irish context. The study undertaken by Cohen *et al.* (2010) is discussed on pages 7 and 8. This study will use a wider definition of fraud than that of Cohen *et al.* (2010). They only examined FFR and the definition they used of fraud as stated in SAS 99 is:

> "*fraud is an intentional act that results in the material misstatement in financial statements that are the subject of an audit*" SAS 99 (AICPA, 2002, Para. 5)

This dissertation reviews occupational fraud, consisting of FFR and AM in Ireland by comparing the content of the press reports to the content of ISA 240 "The auditor's responsibilities relating to fraud in an audit of financial statements" (2004), as this is the relevant auditing standard which outlines to Irish auditors the recommended audit approach relating to fraud. Following on from the results of this research, the difficulties in bringing a conviction for fraud are then explored.

1.6 Limitation of this Research

This exploratory descriptive research, while narrowing the existing gap in the literature, has limitations. In fulfilment of the requirements for a Masters in Business (Research), this dissertation was the first major piece of academic research undertaken by the researcher. Along with experience, time was another limiting factor for the researcher. This resulted in the time framework stopping in December 2013. This research was undertaken by only one person, so unlike the Cohen *et al.* (2010) study, there was not another researcher verifying the coding of the categorisation of the fraudulent activities. However, every effort was made to ensure the coding was accurate.

1.7 Structure of the Study

Chapters Two and Three of this study provide a thorough analysis of the extant literature relevant to this research. Chapter Two synthesises the literature on the definitions and characteristics of fraud. The main writers cited in this chapter are Sutherland (1940, 1944) and Cressey (1950, 1953) as well as Brennan and Hennessy (2001), Albrecht *et al*. (2004), Zahra *et al.* (2007), Gullkvist and Jokipii (2013) and Dorminey *et al.* (2010). This chapter also reviews ISA 240 (2004) and the fraud red-flags included there-in. This is the relevant auditing standard in Ireland. The outcome of this chapter is to confirm the difficulties in defining fraud and convicting for fraud that will be re-examined in an Irish context to answer one of the questions posed in this study.

Chapter Three introduces the framework used in this study by following the development of fraud theories from the 1950s. The main writers are Cressey (1950, 1953), Ramamoorti (2008) and Dorminey *et al*. (2012) and ultimately Cohen *et al.* (2010). It looks at the creation of the Fraud Triangle (FT), the expansion, and elaboration of each of its elements, and the development of the Theory of Planned Behaviour (TPB). It concludes with the development of the FT/TPB framework, by Cohen *et al.* (2010) which is a combination of the FT and the TPB. This is the framework that will be used in this study.

Chapter Four describes the research strategy chosen to achieve the research objective. It justifies the use of content analysis of press articles and lays out in detail the steps taken by the researcher in extracting and analysing the content of the press articles of thirty-five unique cases of occupational fraud in Ireland, which are further analysed in Chapters Five and Six.

Chapter Five verifies the validity of the FT/TPB framework for this study. It classifies the content of the reports of the thirty-five Irish occupational fraud cases convicted in Ireland between 2002 and 2013. Verification is achieved by classifying the data first into the three elements of the FT; incentive/pressure, opportunity and attitude/rationalisation elements of the FT and then sub-classification of the rationalisation element into the elements of the TPB; attitude towards risk, subjective norms, perceived behavioural controls and moral obligation. The content of the press reports of the cases fits into this framework, deeming it valid for use in this study.

In Chapter Six the elements of the thirty-five Irish cases, as classified by the FT/TPB framework, are compared to the examples in ISA 240, in order to determine whether these elements are present or not in the audit standard. This analysis will determine whether ISA 240 sufficiently covers the elements of fraud in the extant Irish cases or not.

Chapter Seven presents the conclusion of this research by answering in detail the two research questions of this paper. It validates many of the findings of the extant literature in an Irish context and adds to this body of literature. It concludes with suggestions of how its findings could be used by other researchers to provide insight into occupational fraud.

1.8 Conclusion

This chapter introduced the background to this research. It examined the need for research into occupational fraud in an Irish context. It stated the research objectives, research questions and the framework that will be used. It also outlined the limitations of the study. Chapter One concluded with an outline of the structure of the remainder of the study, from the literature review, research methodology, to the research undertaken, the findings, and the conclusion.

Chapter 2 Definition of Fraud

2.1 Introduction

This chapter commences with an introduction to fraud, it then explores the definition of fraud, dividing extant literature into those publications that define fraud by its characteristics and those that define it by its constituent parts. The economic impact of fraud is examined and the criminal convictions for fraud are then explored. This chapter provides an analysis of, and the production of a figure depicting, the main reasons why it is difficult to bring a conviction for fraudulent activities. It concludes with a review of the controls to prevent fraud, in particular a description of ISA 240 "The Auditors Responsibilities Relating to Fraud in an Audit of Financial Statements" and the red-flags included therein.

2.2 Fraud is Not a New Crime

Fraud is not a new crime (Zahra *et al.*, 2007; Dearman, 2012; Dorminey *et al.*, 2012). It has "*existed since the beginning of commerce*" (Dorminey *et al.*, 2012, p. 556). One of the first reported instances of public company fraud was in the East Indian Tea Company in the late 1600s (Smith, 1776; Keay, 1992; Robins, 2007). This public company abused the powerful position granted to it by the British government to grow the company and artificially inflate its share price. Parliamentary inquiries into the company exposed corruption and fraud and as a result the share price fell dramatically. Over four hundred years later, fraud is still prevalent in commerce.

> "*Recently – over four centuries after the East Indian Company introduced the concept of public ownership – we have seen significant abuse in companies leading to large-scale fraud, the bankruptcy of major companies and the evaporation of wealth*" (Albrecht *et al.*, 2004, p.110).

It is only since Sutherland (1940) coined the phrase ‘white-collar crime’, over seventy years ago, that it has been a topic of academic research. Sutherland (1940) researched “robber barons.” The robber barons were the owners and directors of the railroad companies of the late nineteenth century who completed railroads “*in the complete absence of any high standard of commercial honesty*” (Sutherland, 1940, p.2). This white-collar crime occurred due to lack of knowledge by the victim (the business) of the possibility of such a crime occurring.

> “*The power of the white-collar criminals is the weakness of their victims. Consumers, investors, and stockholders are unorganized, lack technical knowledge, and cannot protect themselves*” (Sutherland, 1940, p.9).

The term white-collar crime is now synonymous with the full range of frauds committed by professionals.

2.3 Definition of Fraud

This section of the study first examines the literature which defines fraud by its characteristics and then the literature that defines fraud by the type of fraudulent activity undertaken. Even though fraud has been around since trading began, it was not until Sutherland (1940) distinguished fraud from other crimes such as burglary and theft, that the consideration of fraud has emerged (Dorminey *et al.*, 2010). Academics, however, have stressed the difficulty in defining fraud (for example Brennan and Hennessy, 2001; Coenen, 2008; Ramamoorti *et al.*, 2009; Tickner, 2010; Power, 2012). Brennan and Hennessy (2001) state that

> *“the word ‘fraud’ is commonly used to cover a multitude of offences which may differ markedly in size, varying from small (e.g. false expense claims) to very large (e.g. fictitious overseas subsidiary)”* (Brennan and Hennessy, 2001, p. 57).

Comer (1998) suggests that fraud can be classified by definition (e.g. fraud, theft, embezzlement), by victim (e.g. customers, creditors), by perpetrators (e.g. owners, managers), by frequency (e.g. once off or systematic), legally (e.g. crime, tort, contractual), by organisation (e.g. internal, external or transactional) and by the type of fraud (concealed or unconcealed). As there is no definitive definition of fraud, the characteristics and activities that constitute fraud will now be examined.

2.3.1 Characteristics of Fraud

At the heart of fraud are two main characteristics, namely the presence of deception and a resultant loss from that deception (Comer, 1998; Zahra *et al.*, 2007; Burns, 1998; Brennan and Hennessy, 2001; Brown, 2010; Tickner, 2010; Dearman, 2012; Power, 2012). A relevant question is "*at what point does sharp practice become fraud?*" (Burns S. , 1998, p. 38). Judge Laddie in Bernasconi V Nicholas Bennett and Co (2000) answered this question, when he stated that it was the dishonesty factor which distinguished the act as fraud, rather than wrongful trading. The extant literature agrees that fraud is an act committed by a person or persons, in an abuse of power, causing a loss to, or dishonest advantage over, another (for example Comer, 1998; Coenen, 2008; Brennan and Hennessy, 2001; Tickner, 2010; Hill, 2010; PwC, 2011).

Zahra *et al.* (2007) asks if fraud is always a crime. To answer this they divided fraud into three categories: active, a crime of obedience, or a result of errors. An individual is an "active participant" in fraud if s/he organises the fraud. When an individual carries out an order and commits a fraud (rather than disobey an order and suffer the consequence of disobedience), this passive acquiescence is a crime of obedience. Finally, fraud can be a result of errors due to negligence. Even though all three situations result in fraud (inferring that committing an error is fraud), they are not necessarily crimes (Zahra *et al.*, 2007).

Others believe that it is the extent of the individual's participation in the fraud that determines whether or not a fraud took place. The key factor in determining whether an action is fraud or just an error is the intention of person or persons who commit the act of fraud (Terry, 1915; Brennan and Hennessy, 2001; PwC, 2011). In reviewing case law, Keay (2006) found that in measuring intent of a fraudster, judges "*measured what the respondent did according to the standards of ordinary people*" (Keay A. , 2006, p. 134) and that the "*test for intent to defraud is subjective and not objective*" (Keay A. , 2006, p. 125). Therefore a judgment needs to be made in each individual case of suspected fraud, as there is no specific test or measure to establish a person's intent and it is the law that determines whether an action constitutes fraud (Brennan and Hennessy, 2001; Brown, 2010).

2.3.2 Activities that Constitutes Fraud

Just as there is no conclusive definition of the characteristics of fraud, there is also no definitive list of what constitutes fraud. The number of offences that constitute fraud "*are many and various*" (Arlidge and Parry, 1985, p.3). Sutherland (1940) lists the offences perpetrated by people convicted of white-collar crime as misrepresentation in financial statements, bribery, embezzlement, short weights and measurements, tax fraud and misapplication of funds in receiverships. These offences, along with others, such as extortion, concealment of material facts and collusion (Coenen, 2008; Brown, 2010; Hill, 2010; Lloyd, 2010) are identified as types of fraud committed in professional literature and textbooks.

In its blog, the FBI describes the fraud carried out in Enron, ultimately resulting in the collapse of this organisation and the demise of its auditors (Arthur Anderson) in 2002, as follows:

> "*Top officials at the Houston-based company cheated investors and enriched themselves through complex*

accounting gimmicks like overvaluing assets to boost cash flow and earnings statements, which made the company even more appealing to investors" (FBI, 2011)

Irish law does not have a crime named "fraud." Instead, it refers to the concepts of fraud and a notion of what it means to defraud someone (Criminal Justice (Theft and Fraud Offences) Act, 2001; Brennan and Hennessy, 2001). The specific type of offences listed in the legislation include making gains or causing loss by deception, obtaining services by deception, unlawful use of a computer, false accounting, suppression of documents, forgery and counterfeiting.

The issue in determining activities that constitute fraud is that:

"*there is no standardisation on the categories or classification of fraud. Different reporting bodies use different categories for types of fraud*." (Brennan and Hennessy, 2001, p. 69).

Therefore, there is no absolute definition of fraud, no comprehensive list of characteristics or activities, which constitute fraud. The definition of occupational fraud that will be used in this research is when a person abuses his/her position within an organisation for personal or corporate enrichment through Fraudulent Financial Reporting (FFR) and Asset Misappropriation (AM).

2.4 Impact of Fraud

Sutherland (1940) believed that the cost of white-collar crimes was "*probably several times as great as the financial cost of all crimes*" for an organisation (Sutherland, 1940, pp. 4-5). He cited the case of a grocery store manager who embezzled $600,000, which equated to six times the loss that the stores in that grocery store chain incurred from the five hundred burglaries and robberies that same year. Just one such crime could cause a store to go into liquidation. Asset Misappropriation (AM) and Fraudulent Financial Reporting (FFR) are major costs for many businesses (Bierstaker *et al.*, 2006; Wells, 2011). Ramamoorti and Olsen (2007) confirmed that even a single fraud in an organisation could have:

> "*such devastating financial consequences, including irreparable damage, that few companies survive the crisis unscathed."* (Ramamoorti and Olsen, 2007, p.54).

Thomas and Gibson (2003) estimated that in the USA $4,500 per employee was lost due to on-the-job fraud. In 2010, the European edition of the Global Fraud Survey estimated that 5% of annual revenue is lost to fraud (ACFE, 2010). In the UK, members of CIFAS reported over two hundred and seventeen thousand cases of fraud in the United Kingdom in 2010; they warned that "*fraud rates have surged in recent years*" (CIFAS, 2011).

In Ireland Finfacts (2006) estimated that economic crime costs €1,000 per employee. PwC (2014) in their "Economic Crime: A Persisting Threat in Ireland" report surveyed seventy-eight Irish Companies to determine the level of economic crime. Of the companies surveyed, 26% had been the victim of fraudulent activity, and 50% of those affected companies suffered losses over €75,000 in the previous year. The Gardai Recorded Crime Statistics 2007-2011 (CSO, 2013) showed an increase of 10% in "*fraud, deception and related offences*" in the period 2010 to 2011 compared to those from 2007 to 2010. While the statistics from various research and sources allocate different values to the financial impact of fraud committed, it is clear that the financial implications of fraud are substantial.

The current recession causes a major concern that crime, especially acquisitive crime, will increase (Gill, 2011). In 2009, the Chief Executive of CIFAS, the

UK's fraud prevention service, stated "*with Britain in recession, a significant rise in fraud is inevitable*" (CIFAS, 2009). However Gill (2011), who interviewed fraudsters about their views on the notion that the recession would cause an increase in fraud, concluded that the increase is more than likely related to more discoveries of fraud, rather than an increase in the occurrence of fraud. Whether due to the recession or not, fraud appears to be on the increase.

The significance of the monetary effects of fraud can have a momentously negative impact on the results of an organisation, such as shareholders wealth being undermined, employees losing jobs, local communities suffering due to job losses. Fraud can also have far-reaching effects on society in general, with loss of public confidence in the organisation, as well as leading to substantial negative personal consequences for the executives involved (Rezaee, 2005) and often small businesses suffer disproportionately from losses due to fraud (Glodstein, 2009).

2.5 Criminal Convictions for Fraud

Even if a fraud is uncovered, research has shown that approximately 87% of those committing occupational fraud have never been charged with an offence and 85% have never been punished or employment terminated by an employer for fraud-related misconduct (ACFE, 2012). In Ireland the number of reported instances of fraud vastly exceeds the number of convictions for this offence. The number of reported instances of "fraud, deception and other offences" in 2013 was over five thousand (CSO, 2014). These crime statistics cover all fraudulent crime including welfare fraud, Ponzi schemes, identity theft, bankcard fraud, as well as occupational fraud. However, the Irish Prison Services Annual Report (Irish Prison Service, 2013) shows that there were less than four hundred people committed to prison during 2013 for the category of "fraud, deception and other offences." On the 30th November 2013, a snap shot of the prison population showed forty-seven prisoners categorised as serving a sentence for this category of crimes. These prisoners account for 1% of the prison population at that date.

Thirty six per cent of these prisoners were serving a sentence of less than one year, with only 9% serving a sentence of more than 5 years.

The conviction figures are low given the number of organisations affected by fraud as per the 2014 PwC survey. Along with the apparent small number of convictions for fraud, it is estimated that 40% to 50% of organisations recover none of their fraud related losses (ACFE, 2012).

The impact of white-collar crime, as already discussed, is far-reaching in terms of number of organisations affected and the value of the crimes themselves, yet the number of convictions for these crimes, from the statistics available, appears to be low. Therefore, the fraudsters do not appear to be making restitution for their crimes, either by repaying the organisations or by receiving custodial sanctions. The possible reasons for the difficulties in procuring a conviction for fraud will now be examined.

2.6 Difficulty in Convicting for Fraud

With the complexity of defining fraud, it is little wonder that there is great difficulty proving and subsequently obtaining successful convictions for fraud.

> *"It has not always been possible to obtain a successful prosecution, reflecting the difficulty in proving the elements of the crime, including deception, obtaining advantage or the causing of loss."* (Brennan and Hennessy, 2001, p. 82).

Professionals are slow to take responsibility for identifying or convicting fraudsters (Power, 2012). Cited reasons for problems in convicting for fraud are the multifarious definitions of fraud, the difficulty in detecting fraud, the status of the fraudster, difficulty in detecting fraud, advances in technology, law and auditing standards not keeping pace and organisations not proceeding with prosecutions against the fraudsters. These difficulties will now be discussed and expanded further below.

2.6.1 Multifarious Definitions of Fraud

As already discussed, one of the possible reasons for difficulty in gaining a fraud conviction is the wide range of offences covered under the umbrella of fraud and the complexity of the definition of fraud.

> *"No one minds a straightforward theft, where it is clear what has been stolen and who has lost it, even if you don't immediately know who took the cash, asset, or other item that has been stolen. Fraud is usually more complex and most people would prefer it was someone else's problem."* (Tickner, 2010, p.5)

Even when reporting on an investigation in an organisation, accountants avoid the use of the terms 'fraud' or 'fraudulent' as this "*might imply fraudulent behaviour*" by a person, and "*could be construed as libellous*" (Brennan and Hennessy, 2001, p. 82). The number of possible activities and the degree to which an individual is involved in those activities make it difficult to define an action as fraud.

2.6.2 Status of the Fraudster

Up to the 1940s, criminologists and sociologists had only focused on street and violent criminals (Dorminey *et al*, 2012). Sutherland (1940, 1944) noted that these prior theories tended to use poverty as a primary reason for crime, whereas he found that crimes perpetrated by management were rarely driven by poverty, but by strong financial incentives. Some found that these crimes were performed by well-respected members of society in trusted positions in business (Sutherland, 1940; Zahra *et al.*, 2007; Ramamoorti, 2008).

Rezaee (2002, 2005) stated that the majority of top financial statement frauds

> "*occur with the participation and encouragement, approval, and knowledge of top management,*" (Rezaee, 2005, p.280)

KPMG, in their report "Who is a Typical Fraudster" (KPMG, 2011), identified the 'typical' fraudster to be male, 36-45 years old, holding a senior management position in a finance or finance related function, who has been employed by the company for more than ten years and may work in collusion with another perpetrator. Holtfreter (2005) found that individuals undertaking fraudulent financial statements conformed to the high status, educated, male, image of white-collar criminals. She found however that those who perpetrated asset misappropriation or corruption were more likely to be younger and could be either female or male and were less well educated. This supported the findings of Daly (1989) who also found that lower level male and female workers, who do not fit the profile of the typical fraudster mainly, carry out lower value fraud.

White-collar criminals, sometimes called "gentlemen" criminals, were thought of as non-violent criminals (Sutherland 1950; Zahra *et al.*, 2007), but recent research has shown that white-collar crime can also be violent showing the same criminal deviancy as street level criminals. This is especially the case when the criminals are confronted with their crime – especially when they are reoffenders (Walters and Geyer, 2004; Perri, 2011). Following on from his study of a number of fraud cases Perri (2011) stated that white-collar criminals can even "*resort to murder to prevent their schemes from being detected and disclosed*" (Perri, 2011, p. 236).

When fraudsters occupy a position of authority they can actively discourage the investigation of a suspected fraud by virtue of their status in the organisation (Brown, 2010; Tickner, 2010). Where the convictions are pursued, the penalties applied to fraudulent offences are often civil rather than criminal in nature (Sutherland, 1940; Taylor, 2011; Brown, 2010), as other members of society are fearful of antagonizing these professionals. Schoepfer *et al.* (2007) found that public perception however is that white-collar criminals should be punished equally as harshly as street criminals.

Therefore the position of the fraudster, generally a person in authority who is aware of the workings of the business, and the perception that fraudsters are non-violent, leads to an aversion to reporting of white-collar crime.

2.6.3 Difficulty in Detecting Fraud

If the fraudster is in a position of authority and has a superior technical knowledge of the workings of a business, it is difficult to identify complex fraud (Brown, 2010; Tickner, 2010). Due to the secretive nature of the crime of fraud, and subsequent concealment of the act by the fraudster, which involves destroying evidence and disrupting the audit process, this makes detection and subsequent prosecution of fraud difficult (Ramamoorti, 2008; Tickner, 2010; Chitty and McCarthy, 2012). Zahra *et al.* (2007) also noted that much of fraud is uncovered accidentally, and that even when uncovered much goes unreported.

> *"By nature, frauds are designed to be concealed from outsiders. Thus identification of a fraud can be costly and the outcome highly uncertain at the beginning of an investigation."* (Miller, 2006, p. 1010)

Even if the action is an error, this does not mean that it is not a criminal offence (Criminal Justice (Theft and Fraud Offences) Act, 2001). When investigating cases of fraud, accountants, auditors and forensic accountants can assist in detecting fraudulent activity, but it is only the courts that can make a legal determination as to whether fraud has occurred (Arlidge and Parry, 1985; Brennan and Hennessy, 2001; Auditing Practice Board, 2009). However for an organisation following a strategy of fraud detection, rather than prevention, could be impractical given the difficulties in detection (Wells J. T., 2004).

2.6.4 Advances in Technology

Nearly sixty years ago, Sheridan (1955) was under the impression that "*the golden age of fraud*" had passed, as he believed that "*modern inventions*" were "*unkind to the fraud-doer*" (Sheridan, 1955, p. 441). However, as many recent financial scandals unfold, it is apparent that fraud is continuing at large levels in modern times. In fact, the types of fraud committed have "*grown in complexity and its creativity*" (Dorminey *et al.*, 2012, p. 560). Instead of stopping the perpetration of fraud, advances in technology have changed the ways in which fraud occurs in business.

> *"The face of fraud changes as technology changes but the basic offences remain the same"* (Dearman, 2012, p.1)

Cybercrime was not on the list of types of fraud experienced by the companies surveyed for the PwC's Global Economic Crime Report published in 2009 (PwC, 2009). However, in its Irish Economic Crime Report in 2011, cybercrime was reported by over 20% of the companies in Ireland and in Western Europe (PwC, 2011). It is now recorded in the top two economic crimes experienced by companies, with more cases reported than accounting fraud or money laundering (PwC, 2011). In its survey, cybercrime was defined as a crime where computers or the internet play a "*central role in the crime, and not an incidental one*" (PwC, 2011, p. 11). Safecard.ie, an Irish organisation established to raise awareness about the harmful effects of credit and debit card fraud, estimated that fraud losses on credit and debit cards in 2009 in Ireland was €16.6 million with 64% of the frauds undertaken with the card not present ("CNP"). Where the CNP the stolen card data is used to purchase goods over the internet, which is subsequently resold by the thieves for cash.

It should not be assumed that cybercrime relates solely to people external to an organisation. Haugen and Selin (1999) reported that 85 to 90% of Information Technology (IT) frauds in their study were committed by perpetrators internal to an organisation. Gill (2011) interviewed a fraud manager noting that technology appears to make staff "*less diligent in their own fraud prevention efforts*" (Gill, 2011, p.207) and technology, due to its ability to collect such masses of data quickly "*enables fraudsters to commit crimes on a much larger scale than before*" (Gill, 2011, p.207).

2.6.5 Laws and Auditing Standards Not Keeping Pace

As a member of the European Union, the Irish auditing regulations must comply with the Directives of the European Commission, however the national legal system also affects the audit environment (Knechel *et al*, 2008). Despite the financial impact of fraud, criminal sanctions have not been well-developed (Ogren, 1973; Tomasic, 2011) making it difficult to bring a conviction for fraud. Fraud prevention professionals feel that the law and law enforcement had failed to keep pace with fraudsters (Gill, 2011). PwC (2011) noted that when a fraud is detected a robust investigation is necessary to support disciplinary and/or legal actions against the perpetrators. In Ireland, the last update to the law on fraud is the Criminal Justice (Theft and Fraud Offences) Act, 2001 and as shown in section 2.3.2 the list of activities that constitute fraud are ever expanding. ISA 240 "The Auditors responsibility relating to fraud in an audit of Financial Statements" was published in 2004 and SAS 99 was published in the US in 2002. ISA 240 will be discussed further in section 2.8.

The laws on fraud have not been undated since 2001 and the auditing standards have not been updated since 2004 and they may not be keeping up-to-date with advances in fraud. The laws and auditing standards acknowledge the role of management in the protection of the assets of an organisation, but management may require assistance from auditors and other professionals in preventing and detecting fraud.

2.6.6 Organisations Not Pursuing Cases of Fraud

Despite the availability of criminal sanctions and auditing guidelines, the level of prosecutions in Ireland appears to be low. This seems to arise from a number of factors. Firstly organisations don't pursue cases against the fraudsters. The reasons for this vary from fear of bad publicity, the thought that internal punishment is deemed sufficient, private settlement reached with the fraudster and criminal action deemed too costly to pursue (ACFE, 2014). Secondly when fraud cases are pursued it does not appear to result in many prosecutions.

In Ireland the Gardai, at the National Fraud Bureau training initiative announcement, have reported that they are under resourced and "*struggling to keep apace of the number of offences being reported*" (Brady, 2014). This lack of resources prompted senior counsel Remy Farrell to comment that

> "*it was probably easier to get away with white-collar crime now that it have ever been in the history of the state*." (Farrell, 2014)

These lack of resources were confounded in 2012 when two senior Gardai who were in charge of the National Fraud Bureau retired (Cusack, 2012). The Director of Corporate Enforcement only have the resources to hire two accountants to investigate criminal charges, and one who recently retired has not been replaced (Farrell, 2014). In Ireland that now means that

> "*It is not only the regulatory bodies which have had their capacity to investigate and prosecute white-collar offences systematically degraded over the last few years. The Garda Bureau of Fraud Investigations is now so under-resourced that they are in a position to consider in detail only a small proportion of the offences reported to them. Of those that they are able to consider, the resources only exist to pursue investigations in respect of an even smaller proportion still*." (Farrell, 2014)

Wright (2006) called for fraud trials to be treated differently to other prosecutions that are tried by jury due to the technical nature of the evidence presented and the complexities of the evidence gathering and evidence given. She suggested that trial by professional tribunals may lead to an increase in fraud prosecutions.

As the resources of those who are charged with prosecuting fraud are inadequate the number of cases of white-collar crimes pursued in Ireland will remain low.

> *"Not only do we continue to tolerate what was euphemistically described as 'light-touch regulation' but the very machinery of hard regulatory enforcement has been gutted in recent years. Not only have things not improved, they have gotten worse. As long as that remains the case, we will live in a veritable golden age for hucksters and fraudsters of all sorts. White-collar crime is highly profitable and the chances of being hanged, drawn and quartered – publicly or otherwise – are so slight as to be insignificant.* (Farrell, 2014)

Organisations not reporting or pursuing cases of fraud and Gardai being under-resourced in relation to the cases which are pursued, has led to the small number of reported prosecutions for fraud, compared to the number of reported instances.

2.7 Controls to Prevent Fraud

As the effects of fraud are significant, in order to protect the assets of the organisation, a company needs to implement controls. Deloitte (2008) pointed out that an organisation's workforce is both its greatest asset but also its "*most critical vulnerability*". They suggest that "*risk is a dynamic phenomenon interacting with potentially changing variables*" (Deloitte, 2008, p.15). The equation that they developed to assess corporate risk of fraud is:

Risk = f(Vulnerability * Threat * Context * Asset Loss * Consequence)

By using this formula an organisation should be able to determine the risk that each individual poses to the organisation, based on their vulnerability (the characteristics and behavioural patterns of an individual), their threat to the organisation (personal and professional pressures which impacts a person's life or view of themselves as competent), the context in which they work (the part of the organisation), the assets to which they have access to (which could be compromised if an individual wittingly or unwittingly disclosed information on, or took action against) and the consequence of the compromising of the assets (which can sometimes be acceptable and sometimes catastrophic). Using this formula, an organisation can determine the amount of resources they should put into controls in different areas of the organisation, weighting resources towards the area where the most fiscal damage can be done.

While Deloitte (2008) risk equation offers an insight into the risks a corporation is exposed to, it does not help to develop a plan to protect the organisation. The use of accounting controls, improving the ethical culture of an organisation and the proactive use of data analysis in an organisation are the most effective way to lessen the opportunity for fraud to occur in an organisation (Brown, 2010). Lloyd (2010) called these the control infrastructure of an organisation. Placing emphasis on robust internal controls, good corporate governance, and the organisational ethics would appear to be the best way for organisations to reduce the opportunities for fraudsters (Albrecht *et al.*, 1984; Auditing Practice Board, 2009; Brown, 2010). The introduction of controls into an organisation is however expensive as additional paperwork and personnel are required. An organisation should assess the susceptibility of assets to fraud and develop controls to protect them. Organisations will need to consider the cost of the controls versus the potential cost of fraud.

2.8 ISA 240 "The Auditors Responsibilities Relating to Fraud in an Audit of Financial Statements

Since a ruling in 1896, the role of an auditor has been described as a watchdog rather than a bloodhound (Comer, 1998; Jones, 2009). This means that the auditor is not expected to approach their job with suspicion or an expectation of wrongdoing on the part of clients or their employees and unless given evidence to indicate otherwise they should accept any documents presented to them in good faith.

> *"Clearly, auditing has changed considerably since 1896, although the auditor's responsibility for fraud detection has remained a low priority"* (Jones, 2009, p. 50).

Concern by the regulatory and accounting bodies regarding the prevalence of fraud and the need for transparency of financial transactions led to the development of ISA 240 (Apostolou and Crumbley, 2008).

The international auditing standard ISA 240 "The Auditors' responsibilities relating to fraud in an audit of Financial Statements" (2004) outlines the responsibilities of auditors, and those charged with the governance of the organisations' assets in relation to fraud. It

> "*aims to have the auditor's consideration of fraud seamlessly blended into the audit process*" (Ramos, 2003).

It is the international equivalent of the US auditing standard SAS 99 "Consideration of Fraud in a Financial Statement Audit" (2002). There are only minor differences between SAS 99 and ISA 240 (Coenen, 2008) and therefore any research into one of the standards can be applied to the other standard.

The primary responsibility for the prevention and detection of fraud still lies with the management and those charged with governance, whereas the auditors have secondary responsibility in this regard (Arlidge and Parry, 1985; Comer, 1998; Jones, 2009). ISA 240 did not change the auditors duty to plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement whether caused by error or fraud. However the standards now require auditors to have professional scepticism, a partner lead discussion of fraud assessment with all senior audit staff on an engagement, and use of management enquiries and analytics to identify potential areas for fraud (Casabona and Grego, 2003; Jones, 2009). An auditor should then use their "*intuition, judgment and experience to look for patterns in the identified fraud risks*" (Ramos, 2003, p. 30). When assessing risks, ISA 240 has added that the auditor should presume there is improper revenue recognition and if none is found then that should be documented. ISA 240 also requires an auditor to include the risk of management override of controls as an audit risk (Ramos, 2003).

ISA 240 divides the fraud undertaken in organisations into Fraudulent Financial Reporting (FFR) and Asset Misappropriation (AM). Sometimes FFR is considered management fraud and AR is considered employee fraud (Gullkvist and Jokipii, 2013). Beasley *et al.* (1999) indicated that 90% of financial statement fraud involved the manipulation, alteration, and falsification of financial information with the balancing 10% involving asset misappropriation.

ISA 240 has a list of examples of fraudulent behaviour, also known as red-flags. These are reproduced in Appendix A. The red-flag approach involves "*the use of a checklist of fraud indicators*" (Bierstaker *et al.*, 2006, p. 521). Loebbecke *et al.*,

(1989) investigated auditors' perceived importance of single red-flags by dividing the red-flags into primary and secondary indicators. Their findings indicated the most important red-flags were "*decision making dominated by a single person", "poor profitability"* and "*management placing undue emphasis on meeting earnings projections"* (ISA 240). Gullkvist and Jokipii (2013) surveyed internal auditors, external auditors and economic crime investigators regarding the importance of red-flags in alerting these professionals to the risk of fraud. The participant groups ranked the red-flags in auditing standards in different order of importance, however they found unethical management behaviour, cover-up of a poor financial situation or illegal acts and a weak internal control environment to be important accross all three groups.

Glodstein (2009) suggested focusing attention on the red-flags and educating auditors and managers to the realities of fraud would lead to auditors asking the right questions iincreasing prevention and detection of fraud. He also found auditors who focus too much on the end result of the audit, the audit report and the preparation of the financial statement, may miss some red-flags indicating fraudulent behaviour. Skousen *et al*. (2009) using the red-flags in SAS 99 found that fraud could be predicted in over 70% organisations where fraud was subsequently reported. However heavy reliance on the red-flag (checklist) approach in the auditing standard has been criticised (Kranacher and Stern, 2004). The limitiations of using the red-flags approach are that red-flags may not necessarily indicate fraud as they focus attention on particular cues, while other indicators of fraud may be ignored (Krambia-Kardis, 2002; Bierstaker *et al.*, 2006; Glodstein, 2009).

For example unexplained discrepancies in the analysis of the financial data in a company's accounts, comparing prior year results to the present results is a red-flag (Comer, 1998; Dennis, 2010). Wright and Ashton (1989) found that such reviews signalled an indication of FFR, resulting in over half of the audit adjustments noted in their study. However non-financial measures, such as comparison of employee numbers to competitor or comparison of a firms manufacturing capacity to actual production, are not included as red-flags in the auditing standard, and could also be used to "*determine the reasonableness of their clients' financial statements*" (Brazel *et al.*, 2009, p. 1138).

The red-flags in ISA 240, as outlined in Appendix A, are useful for auditors but as indicated above, over reliance on these red-flags may lead to auditors missing fraudulent activities. This research on the other hand sets out to examine the adequacy of these red-flags.

2.9 Conclusion

This chapter reviewed the extant literature's attempt to define fraud by its characteristics and its constituent parts. This review illustrates that there is no absolute definition or list of activities that constitute a fraud. This was just one of the reasons why it is so difficult to bring a conviction for fraud. Figure 7.1 shows the seven reasons cited in the literature for difficulty in bringing a fraud conviction. The reasons are the multifarious definitions of fraud, the status of the fraudster, the difficulties in detecting fraud, advances in technology, laws and auditing standards not keeping pace, organisations not pursuing cases of fraud and not all frauds are accidental, which will be discussed in the chapter 3. The extant literature relating to the controls an organisation can implement to safeguard the assets of an organisation were discussed and ISA 240 which outlines the role of auditors relating to the detection of fraud in an audit was discussed. The introduction of ISA 240 was to ensure the auditors consider fraud in an audit. The auditor is now expected to consider that all documentation presented to them may not be trustworthy. However the primary responsibility for the detection and prevention of fraud remains with the directors and management of an organisation. The red-flags included in ISA 240 were also discussed and were shown to be a useful tool for auditors in detecting fraudulent activity, however it was also shown than over reliance on red-flags can lead to auditors ignoring other indicators of fraud. The combination of the factors discussed in this chapter has resulted in only a small number of persons convicted of fraudulent activity held in Irish prisons at this time.

Chapter 3 Frameworks for Fraud Detection

3.1 Introduction

Among the reasons given in the previous chapter for the difficulty in convicting for fraud was the difficulty in detecting fraud. This chapter will examine the trajectory of the framework for detecting and examining fraud from the basic Fraud Triangle (FT) developed by Cressey (1950, 1953), together with developments of the elements of the FT by subsequent researchers. The chapter concludes with the combined Fraud Triangle and Theory of Planned Behaviour (FT/TPB) framework as used by Cohen *et al.* (2010). The FT/TPB framework will then be used in this study to answer the research questions posed.

3.2 Fraud Triangle (1950)

Sutherland (1940) coined the phrase “white-collar” criminals. Ten years later, his PhD student, Cressey produced a framework that lead to the development of the Fraud Triangle (FT). The FT is a framework used to detect and prevent fraud. Cressey (1950, 1953) interviewed white-collar criminals to determine why they had committed fraud. He aimed to identify the factors present when a “trust violation” occurs but are absent when there was none. To achieve this he interviewed inmates in the Illinois State Penitentiaries who met the broken trust criteria and found that the “*trust violation could not be attributed to a single event*” but only as a result “*of a sequence of events, a process*” (Cressey, 1950, p. 742). The frauds in the study, and the methods used, were diverse.

Cressey (1950, 1953) found three elements in all the frauds: perceived pressure (a non-shareable financial problem), opportunity (an opportunity to violate their trusted position), and rationalisation (the ability to justify the behaviour, so that in their mind it does not represent criminal behaviour). Having these three elements distinguishes the action as a fraud, rather than an error.

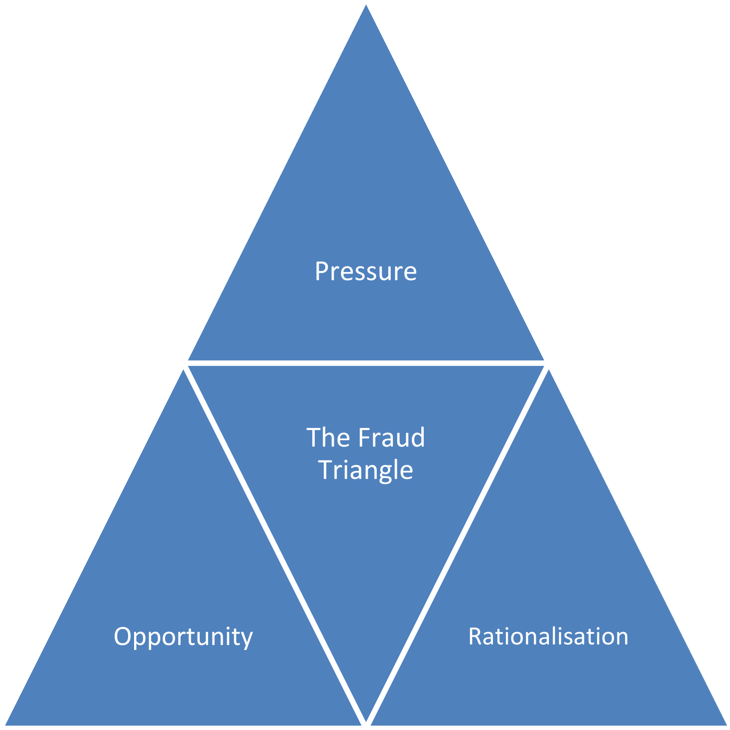
> *"Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable, having the knowledge and awareness that this problem can be secretly resolved by violation of the position of financial trust, and are able to apply to their own conduct in that situation verbalization which enable them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of the entrusted funds or property."* (Cressey, 1950, p.742).

From the work of Cressey (1950, 1950) the fraud triangle (FT) reproduced in Figure 3.1 below was developed. It is an uncomplicated model capturing the three elements of pressures, opportunity, and rationalisation. The FT is still widely used today in the study, prevention, and detection of fraud (Comer, 1998; Brennan and Hennessy, 2001; Skousen, *et al.*, 2009; Cohen, *et al.*, 2010).

> *"In a relatively simple and understandable model, Sutherland and Cressey were able to help anti-fraud professionals understand the motivations and actions of good people who make bad choices*." (Dorminey *et al*., 2010, p. 19).

Subsequent studies of fraud cases support the existence of the three elements of the FT (Bell and Carcello, 2000; Albrecht *et al.*, 2004; Rezaee, 2005; Choo and Tan, 2007). Albrecht *et al.* (2004) with their "Broken Trust Theory" conjectured that pressure to commit corporate fraud and opportunities presented lead executives to break their agency or stewardship relationship, and they subsequently rationalise their behaviour. Rezaee (2005) reviewed five fraud cases and found all three elements of the fraud triangle in the cases reviewed.

Figure 3.1 - Cressey's Fraud Triangle



Reproduced from Corporate Fraud (Brown, 2010))

Albrecht *et al*. (2006), using the FT, compared the elements of fraud to a fire, where the three elements heat (perceived pressure), fuel (perceived opportunity), and oxygen (rationalisation) need to exist, for a fire (fraud) to continue to burn. They called this framework the "Triangle of Fraud Action." Accordingly, the removal of one element lets the fire die, thus if one of the elements of the fraud triangle is removed then the fraud will not occur. These elements could also be "*what policemen and detectives have referred to as means, motives, and opportunity*" (Ramamoorti, 2008, p.525). In Choo and Tan's (2007) American Dream Theory, they used the three elements of the fraud triangle by using monetary and corporate success as the pressure, with corporate executive having the opportunities to break regulatory control, leading the executives to rationalize and justify their actions.

Albrecht *et al.* (2006) reviewed the corporate bankruptcies in the US in 2002 and noted that six of the ten largest bankruptcies, prior to that research, had taken place in 2002. They also noted that the majority of the bankruptcies in that year related to financial statement and/or CEO fraud. They called this "the perfect fraud storm" and they listed the nine elements that caused it. The elements of this perfect storm were executive incentives, unrealistic Wall Street expectations, large amounts of debt and greed. The good economy as a mask of many problems, selective interpretation of rule-based accounting standards and opportunistic behaviour of CPA firms, moral decay in society and educator failures. They also listed these elements using the FT elements of pressures, opportunities, and rationalisations.

Thus, research undertaken has confirmed the appropriateness of the FT as a framework to evaluate frauds. The auditing professionals have used it as a basis for their work in relation to fraud detection and prevention. These auditing standards (SAS 99 and ISA 240) use the FT framework of incentive/pressure, opportunities and attitude/rationalisation, to outline examples of behaviours that might alert the auditor to fraudulent activity.

> *"According to the AICPA, only one of these factors needs to be present in order for fraud to be committed. SAS9 requires the auditor to apply numerous new procedures aimed at examining the firm environment and to evaluate expansive amounts of new information in an effort to identify facts and circumstances that are indicative of the existence of pressures, opportunities, and/or rationalizations."* (Skousen *et al*., 2009, p. 56).

Skousen *et al*. (2009) used the formula

$$\text{FRAUD} = f(\text{Pressure, Opportunity, Rationalization})$$

and data from financial statements of quoted companies to test the effectiveness of the FT and SAS 99 in detecting and predicting financial statement fraud. They found that when using financial information for publicly quoted companies with this formula and the examples of fraudulent behaviours included in SAS 99, fraud could have been predicted in over 70% of organisations where fraud was subsequently reported.

The FT framework has been confirmed by the research. The three elements of the Fraud Triangle (pressures, opportunities, and rationalisation) will now be examined further.

3.2.1 Perceived Pressure

Cressey (1950, 1953) found that a perceived pressure from a non-shareable financial problem motivated the perpetration of fraud. "*Wine, women and wagering*" were the pressures outlined by Cressey (1950, p. 743). These original pressures could be classified as financial pressures, however subsequent research critiques this element of the FT which should contain non-financial factors as well as financial factors. Pressures can also be classified as internal and external.

Financial pressures such as expectations to meet or beat analyst set targets (Koh *et al.*, 2008; Perol and Lougee, 2011) or funding requirements (Bell and Carcello, 2000; Lie, 2005; Efendi *et al.*, 2007; Zahra *et al.*, 2007) have led individuals to commit fraud. Perol and Lougee (2011) found that firms reporting frauds are more likely to have managed earnings in prior years and are more likely than non-fraud firms to have met or exceeded analyst forecasts. Companies trying to secure low-cost external funding (Deehow *et al.*, 1996) or new equity (Efendi *et al.*, 2007) are tempted to manipulate and misstate financial statements and earnings to make the company appear more attractive to investors. Similarly, CEOs with substantial stock options were more likely to misstate financial statements (Efendi *et al.*, 2007), as their wealth is a function of the stock price. Further evidence of stock options providing an incentive to act fraudulently was provided by Lie (2005) who found verification that hundreds of firms intentionally backdated their stock options in order that those with options would gain financially. However, Erickson *et al.* (2006) found no relationship, in the firms they examined, between equity incentives and the probability of the firm reporting fraudulent financial information. Indeed Armstrong *et al.* (2010) found that accounting irregularities occur less where CEOs have comparably larger levels of equity.

Agnew (1992), in an examination of cultural imbalances in crime, developed the General Strain Theory, which suggests that a social environment where social standing based on materiality induces behaviour to achieve material success. In other words, when the value of an individual is based on their wealth, then the individual will attempt to achieve, by whatever means, the wealth to maintain or further their social standing. Paternoster and Mazerolle (1994) and Broidy (2001) used the General Strain Theory in the context of white-collar criminals to explain the causes of FFR, addressing the notion of pressure driven fraud. They found that pressure to meet expectations drove the subjects to commit a fraud.

Non-financial pressures were not considered in the original FT research. However Ramamoorti *et al.* (2009) used behavioural economics and psychology to understand the motivation behind the act of fraud, and confirmed that non-financial reasons can also be a pressure that precipitates a fraud. They argue that "*fraud is a human act*" (Ramamoorti *et al.*, 2009, p. 21) and conclude that even if individuals are wealthy their social status can be sufficient motivation to commit a crime. Cases such as Madoff, Enron and Worldcom are examples where the convicted perpetrators were motivated by their ego and sense of entitlement.

Langton and Piquero (2007) and Zahra *et al.* (2007) studied sociology literature to determine whether stress or strain created by economic and social circumstances and norms of material ambitions could explain an individual's propensity to indulge in criminal or fraudulent acts. They found that such strains were positively correlated to securities violations. These findings suggest that those who committed securities violations were of high social standing in their present employment but appeared to have a fear of liability and unemployment strains. For example if an executive fears a loss of a job then there is more likelihood of a fraud. The loss could happen from non-performance of such things as market expectation, therefore s/he is more likely to use whatever means necessary, including criminal violation, to meet occupational expectations, suggesting that personal as well as organisational pressures are a factor in fraud.

A criticism of Cressey's work is that all the non-shareable financial pressures are internal, in that they related personally to the fraudster (Zahra *et al.,* 2007; Kassem and Higson, 2012) and are therefore difficult to identify. Zahra *et al.* (2007) suggested that pressure could be divided into internal (personal) and external (organisational/societal/industrial) pressures. Similarly Ramamoorti *et al.* (2009) concluded that not only can the individual (Bad Apple) be under pressure to achieve targets, but also the department (The Bad Bushel) or the organisation as a whole (The Bad Crop) could use goals as motivation for the committing of fraud. Therefore, along with the individual's personal ethics, the ethical culture of the organisation is also critical in the likelihood of fraud being committed (Ramamoorti *et al.*, 2009; PwC, 2011).

In order to classify the types of pressures that are likely to occur, Kranacher *et al.* (2011) classified the perceived pressure element of fraud using the acronym M.I.C.E. (M = Money, I = Ideology, C = Coercion and E = Ego / Entitlement). The purpose of this framework was to assist investigators in identifying the motivation of the perpetrator**. M**oney is an obvious motivation to commit fraud, whether it is to pay for personal debts or to gain a higher bonus by adjusting the financial profits of an organisation (Coenen, 2008; Kranacher *et al.*, 2011). The non-shareable financial pressure described by Cressey (1950, 1953) did not cover financial pressures such as stock options, bonuses and monetary incentives as they were not as prevalent in the 1950s as they are today but the research undertaken since then has expanded these pressures significantly. Also, as discussed earlier, Cressey (1950, 1953), did not identify non-monetary motivations. The M.I.C.E. framework also includes ideology, coercion, and ego. **I**deology might be a less frequent motivation for occupational fraud but examples such as tax evasion because taxes are unfair or unconstitutional or funnelling funds to finance terrorism activities show that ideology can be a motivating reason. The perpetrators believe that they are achieving some greater good (Dorminey *et al.*, 2010; Kranacher *et al.*, 2011). **C**oercion is where the individual is unwilling but pressurised into participation in the fraud scheme (Kranacher *et al.*, 2011) and equates to the Bad Bushel and Bad Crop identified by Ramamoorti *et al.*(2009). **E**go is where an individual believes that they are entitled to the money or the status that they get because of the fraud being committed (Ramamorti *et al.*, 2009; Kranacher *et al.*, 2011).

Kassem and Higson (2012) drew up a comprehensive list of perceived pressures dividing them firstly between financial and non-financial pressures and then between personal, corporate/employment and external pressures. Examples of personal financial pressures were gambling addiction, sudden financial problems and paying for lifestyle. Examples of non-financial personal pressures were lack of personal discipline and greed. Examples of corporate/employment financial pressures included continuous compensation structure, management financial interest in the business and low salaries. Examples of corporate/employment non-financial pressures were unfair treatment, fear of losing job and frustration with work or challenge to beat the system. Examples of external financial pressures were threats to business financial stability and market expectations. Examples of non-financial external pressures were ego, image, reputation or social pressure. This again extended the "pressure" component of the FT.

The full list of the examples of pressures presented in ISA 240, as shown in Appendix A, includes such examples as "*financial stability or profitability is threatened by economic, industry, or entity operating conditions"*(ISA 240, p.32) and "p*ersonal financial obligation*" (ISA 240, p. 36). ISA 240 outlines that pressures may occur internally and may also arise from outside the organisation.

The expansion of the "perceived pressure" element of Cressey's (1950, 1953) fraud triangle is therefore not only personal non-shareable financial pressure as originally suggested, but also encompasses non-financial pressures and wider organisational and societal pressures. No matter where the perceived pressure arises, whether it is financial or non-financial and whether it is internal or external, when investigation of fraud takes place, the pressure is a difficult element to identify, as it is usually internalised (Brennan and Hennessy, 2001; Brown, 2010; Kranacher *et al.*, 2011; Taylor, 2011).

3.2.2 Perceived Opportunity

The second element of Cressey (1950)'s fraud triangle is perceived opportunity. The opportunity to commit fraud leads to the fraudster circumventing any of the internal controls the organisation employs to safeguard its assets. This is the element of the triangle that the management of the organisation has control over and is visible to the auditors.

> "*As part of their anti-fraud efforts, organisations attempt to anticipate what fraudsters might perceive and design an environment to minimize (subject to implementation costs) the potential for material misstatement.*" (Trompeter *et al.*, 2013, p. 296).

Several studies review the effectiveness of internal control systems or corporate governance to determine whether they have an effect on the likelihood of fraud occurring. Albrecht *et al.* (1984) and Lloyd (2010) discussed the factors that increase the likelihood of fraud in organisations and concluded that having an effectual internal control structure contributes most to the minimisation of opportunities to commit fraud in an organisation. If a fraudster does not have the opening to commit fraud then they believed that no fraud could occur (Albrecht *et al.*, 2004). Loebbecke *et al.* (1989) surveyed audit partners with experience of detecting financial fraud. They found that weak internal controls were the chief condition necessary for the committing of fraud. Unsurprisingly Caplan (1999) found that managers who wished to commit fraud prefer weak controls to enable them to carry out the fraud.

Rezaee (2002, 2005) developed the CRIME model an acronym of five factors which increase the likelihood of financial statement fraud; Cooks, Recipes, Incentives, Monitoring and End Results. The Cooks of the financial statement fraud are those who perpetrate it. He stated that the majority of top financial statement frauds "*occur with the participation and encouragement, approval, and knowledge of top management*" (Rezaee, 2005, p.280). The Recipes of financial statement fraud is the methodology used by the fraudster to carry out the fraud. The Incentives of financial statement fraud equates to the pressure corner of Cressey's Fraud Triangle. Rezaee (2005) noted that incentives, which encourage top executives to inflate earnings to increase their compensation packages, give those executives the incentive to commit fraud. The fourth element is monitoring. The rules of the stock exchange monitor publicly quoted companies. The Sarbanes-Oxley Act (2002) recognises that responsible corporate governance is driven by the tone at the top, where high quality financial reporting and no tolerance for misstatement are accepted.

Rezaee (2005) also found that strong audit committees overseeing the financial reporting process and the presence of adequate and effective internal controls and audit function was the most effective way to monitor organisations. Rezaee (2002) suggested that by reviewing internal controls, forensically reviewing the organisation's records and by having vigilant corporate governance together with vigilant audit committees and giving power to management and boards of directors to enforce corporate objectives, organisations could minimise the opportunities for fraud. In order words an organisation needs to place great emphasis on the corporate governance in an organisation to minimise the risk of fraud occurring. Abbott *et al.* (2004) reviewed how the audit committee characteristics (independence, financial expertise and activity levels) affected the likelihood of financial statements being restated. They found that occurrence of the restatement of financial statements was negatively correlated to the activity level and independence of the audit committee. McMullen and Omer (1996) also found that firms with financial reporting issues were less likely to have audit committees consisting of independent members. Deehow *et al.* (1996) found that firms with less independent boards, or with the CEO as the firms' founder, were more likely to manipulate earnings and less likely to have an audit committee or shareholding held by external block holders. The implication being that owner-managed businesses, without a non-partisan board, facilitate fraudulent activities. Efendi *et al.* (2007) found executives on boards already sued for fraud to be more likely to be sued multiple times for fraud. Based on their empirical evidence Zhao and Chen (2008) found that boards with staggered terms (in contrast to those whose board is elected for the entirety of a term) showed lower likelihood of financial statement fraud, lower levels of unexpected accruals and lower firm values, suggesting that boards with this structure have less incentive to increase firm value or manage earnings. Collins *et al.* (2009) found that where the CEO exercised greater control over the board, the prevalence of option backdating was higher.

Coenen (2008) suggested dividing internal controls into preventative (stopping it from happening in the first place); detective (finding fraud as soon as possible after it happens) and corrective controls (remedy the fraud and prevent it happening in the future). From these research findings, the role of corporate governance and strong audit committees with autonomous members could lead to a reduction in the opportunity available to commit fraud. The control environment, which the fraudster exploits to commit the offence, is the observable and most preventable element of the FT from an organisational perspective. It is the area that companies and auditors can concentrate on in order to deter fraud, as it is where they have maximum control over the systems of the company.

The full list of the examples of opportunities presented in ISA 240, as shown in Appendix A, includes such examples as "*accounting and information systems that are not effective*" (ISA 240, p188) and "*inadequate controls over assets*" (ISA 240, p190). ISA 240 outlines the importance of safeguarding assets and reducing the opportunity to commit fraud.

The opportunities element of the FT is the most observable and it is the element that is under the control of those in charge of the safeguarding of assets. Measures such as independent boards, audit committees and effective preventative, detective and corrective internal control measures in an organisation could be implemented to ensure the protection of the assets of an organisation.

3.2.3 Attitude/Rationalisation

The third element of the FT is rationalisation. The fraudsters need to justify their actions to themselves and to others. Fraudsters justify fraud in their own minds thus making it morally acceptable to themselves to commit the crime (Cressey, 1950; Coenen, 2008; Kieffer and Sloan III, 2009). The term ‘rationalisation’ is used interchangeably with the term ‘attitude’ in much of the literature. Research undertaken on the attitude/rationalisation element of the FT is often from sociology and behaviour science perspectives (Hogan *et al.*, 2008; Trompeter, *et al.*, 2013). Unfortunately accounting literature has given this part of the Fraud Triangle little attention (Murphy and Dacin, 2011). Similar to the perceived pressure element of the FT, one cannot observe rationalisation, as it is internal to the fraudster (Dorminey *et al.*, 2010, Albrecht *et al.*, 1984) and therefore inherently difficult to detect.

When Cressey questioned the fraudsters as to why they had committed fraud in their current situation but had not exploited previous fraud opportunities, some gave such reasons as “*there was no need for it like there was this time*”, “*the idea never entered my head*” and “*I thought it was dishonest then, but this time it did not seem dishonest at first*” (Cressey, 1950, 1953). Other ways the fraudsters have rationalised their actions were cited as follows: “*the organisation owes me*”, “*I am only borrowing the money – I will pay it back*” and “*the company can afford it*” (Dellaportas, 2012).

Nelson *et al.* (2002) said that the more imprecise the accounting standards, the more likely it was for managers to attempt to increase earnings and also the more likely it was for the auditors to look for restatement of the figures. With imprecise accounting standards a fraudster can purport to follow the "rule" of the accounting standard, rather than the intention of that standard. This is more relevant under US GAAP, which is rule based accounting, rather than under IFRS, which apply in Ireland, which are principal based (AICPA, 2002).

The terms rationalisation and attitude are used interchangeably in the auditing standards (ISA 240; SAS 99) as well as in published literature. ISA 240 gives examples such as "*non-financial management's excessive participation in or preoccupation with the selection of accounting policies or the determination of significant estimates"* (ISA 240, p.188) or "*disregard for the need for monitoring or reducing risks related to misappropriations of asset"* (ISA 240, p. 191). The full list is included in Appendix A. ISA 240 attempts to present attitude/rationalisation which might be observable to auditors.

Albrecht *et al.* (1984) found that even if the three elements of the FT did exist the individual might not necessarily commit fraud. Therefore, they refined the fraud triangle, replacing the rationalisation element with "personal integrity" and called it the Fraud Scale. Accordingly, the elements they considered as most likely to contribute to the occurrence of fraud are highly pressurized conditions, low controls and a person of low personal integrity. They observed that inappropriate behaviour is less likely to be rationalised by a person with high personal integrity. Hernández and Groot (2007) also found that some of the most important factors when assessing fraud risk in an audit are the managers' integrity, candour, and ethics together with concerns regarding aggressive recognition of earnings and accounting estimates. The benefit of using personal integrity instead of rationalisation as an element of fraud is that strong personal and corporate ethics can be observed externally and inferred from past events, therefore increasing the chance of detecting and thus preventing fraud occurring and reducing the risk of someone justifying a fraud (Rezaee and Riley, 2009; Dorminey *et al.*, 2010; Hill, 2010).

ISA 240 recognised that pressure is both internal and external. All examples can be seen in Appendix A but they included internal pressures such as "*personal financial obligations"* (ISA 240, p190) and external pressures such as "*financial stability or profitability of threatened by economic, industry, or entity operating condition*" (ISA 240, p186).

Therefore, for a fraudster to rationalise the behaviour they have to convince themselves and others that their personal ethics or the ethics of the business are upheld by the committing of the fraud. However if rational judgement is employed in any situation, this could aid in the identification of a solution to the problem "*without resorting to unlawful behaviour*" (Dellaportas, 2012, p.2).

Wolfe and Hermanson (2004) also criticised Cressey's (1950, 1953) Fraud Triangle as missing one element necessary for a fraud to take place, capability. They suggest that even if a situation arises where an employee has financial pressures, the internal controls are such that the fraud can be committed and the potential fraudster can rationalise the fraud, it is only if the individual has the "capability" that fraud will happen. They developed the Fraud Diamond by adding the element of "capability" to the Fraud Triangle.

Wolfe and Hermanson (2004) described how opportunity would open the door to fraud, incentives and rationalisation will pull them closer to that door, but the fraudster must have the capability to identify the opening and thereby walk through the door leading to the committing and the concealing of the fraudulent act. The potential fraudster will think:

> "*I have the necessary traits and abilities to be the right person to pull it off. I have recognised this particular fraud opportunity and can turn it into a reality*." (Wolfe and Hermanson, 2004, p.39).

Rationalisation is internal to the fraudster, however personal integrity can be observed. Therefore, the individual's capabilities should be considered.

3.3 Individuals Capabilities and Predatory Fraudsters

It has been recognised that some fraudsters just require an opportunity and that there may be no pressure or rationalisation needed by an individual. The FT uses the assumption that the fraudster is an accidental fraudster, meaning that s/he did not set out to intentionally defraud the organisation when s/he began the fraud and then as the fraud remained undetected he/she continued with the fraud (Antar, 2010; Dorminey *et al.*, 2010 and 2012; Kranacher *et al.*, 2011).

> *"Notwithstanding the fraud act, the accidental fraudster is considered to be a good law-abiding person who under normal circumstances would consider theft, breaking the law, or harming others*." (Dorminey e*t al.*, 2010, p. 21)

However, predatory fraudsters do not need to rationalise their behaviour and they may not have any financial pressures. Predatory fraudsters, or industrial psychopaths, only need to see an opportunity to defraud a company and they will seek it out and therefore the personal capabilities of a person should be examined (Walters and Geyer, 2004: Wolfe and Hernanson, 2004, Perri 2004; Ramamoorti, 2008; Dorminey *et al.*, 2010; Kranacher *et al.*, 2011).

> *"Criminals come up with excuses but they know what they're doing and why they're doing it. They don't have to do it in most cases."* (Antar, 2010).

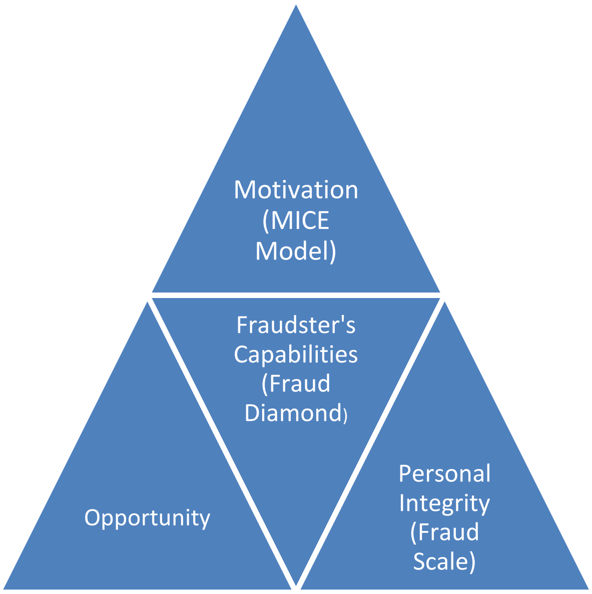
Keeping opportunity as a common element within the FT, Dorminey *et al.* (2012) prepared a new fraud triangle to capture the essence of the predatory fraudster. Perceived pressure is replaced by criminal mind-set and "rationalisation" is replaced with arrogance. If one used the fraud scale as described in section 3.2, the predatory fraudster would have low personal integrity and using the fraud diamond as described in section 3.2.3 a predatory fraudster would have the capability to commit the fraud. Therefore, when protecting an organisation against fraud or investigating the possibility of fraud, consideration should be given to the idea that not all elements of the FT are needed for a fraud to take place.

3.4 Subsequent Use of Fraud Triangle

Subsequent researchers have modified elements of the FT to improve its effectiveness in the prevention and detection of fraud "*where the fraud triangle has fallen short*" (Dorminey *et al*., 2010, p. 19).

As "*the fraud triangle was created with the accidental fraudster in mind*" (Dorminey *et al*., 2010, p.21), it is not always effective in determining the actions of a predatory fraudster or of fraud by collusion or management override (Wolfe and Hermanson, 2004; Dorminey *et al*., 2010 and 2012). By using other tools such as the Fraud Scale (as discussed in section 3.2.1), the Fraud Diamond (as discussed in section 3.2.3) or MICE (as discussed in section 3.2.1) to investigate fraud, audit professionals should have a better chance of detecting and preventing both predatory and accidental fraudsters (Dorminey *et al*., 2012). Dorminey *et al*., (2012) considered this framework useful in extending the observable elements of fraud, thereby improving the detectability of fraud. They see this expanded fraud triangle as a better tool for assisting auditors, as they "*will consider all the* *necessary factors contributing to the occurrence of fraud. This should help them in effectively assessing fraud risk*" (Kassem and Higson, 2012, p195).

Figure 3.2: The New Fraud Triangle Model



Reproduced from Kassem and Higson (2012)

The "new fraud triangle" model encompasses the subsequent research of the elements of the fraud triangle and transforms the elements that are internal to a fraudster and makes them observable. The observable behaviour of individuals has also been researched in sociology literature.

3.5 Theory of Planned Behaviour (TPB)

Ajzen and Fishbein (1974) sociologists developed the "Theory of Reasoned Action" (TRA) to predict dishonest actions. Ajzen (1991) enhanced the TRA and developed the Theory of Planned Behaviour (TPB) to illustrate how the behaviour of an individual is based on "*three conceptually independent determinants of intention*" (Ajzen, The Theory of Planned Behaviour, 1991, p. 188); namely attitude towards the behaviour, the subjective (societal) norms and the perceived behavioural controls. A person will evaluate firstly their behaviour based on their "*attitude towards the behaviour*," secondly the "*social pressure*" to perform or not perform an action and thirdly the "*perceived ease or difficulty of performing*" the action (Ajzen, 1991, p. 188). Beck and Ajzen (1991) added a fourth concept of "*personal feelings of moral obligation*". Any of these factors can determine whether a person will undertake or not undertake an action. An individual is therefore assumed to be driven by their personal beliefs, the organisational or societal ethics, their assessment as to the likelihood of being caught and punished for their behaviour and their moral belief system.

Predicting individuals' behaviour using the TPB framework has been examined and verified in many different environments such as health (Godin and Kok, 1996), electronic commerce adoption (Pavlou and Fygenson, 2006) and physical activity (Hagger *et al*., 2002). Gillett and Uddin (2005) found that using the theory of planned action explained managements' attitudes towards fraud. Carpenter and Reimers (2005) also found that the theory of planned behaviour could explain fraudulent and unethical behaviour.

3.6 Combined FT/TPB Framework

Following on from the verification of the TPB framework, Cohen *et al.* (2010) combined the TPB and the FT as they felt they are complementary theories, which overlap for a number of areas of fraud. By incorporating the four concepts of the TPB as an adjunct to the attitude/rationalisation element of fraud triangle, they produced the FT/TPB framework (as shown in Figure 3.3).

Cohen *et al.* (2010) felt that by extending the rationalisation element of the fraud triangle to include the attitude towards fraud, subjective norms, perceived behaviour controls and moral obligation made the most unobservable element of the fraud triangle more visible to the auditor.

> *"Of these three points of the fraud triangle, this corner is arguably the most difficult for the auditor to assess. Attitudes and rationalizations are cognitive and therefore internal by nature. They may be hidden or suppressed in order to deceive. Often, the best the auditor can do is to make inferences as to the attitudes managers may possess."* (Cohen *et al.*, 2010, p.273).

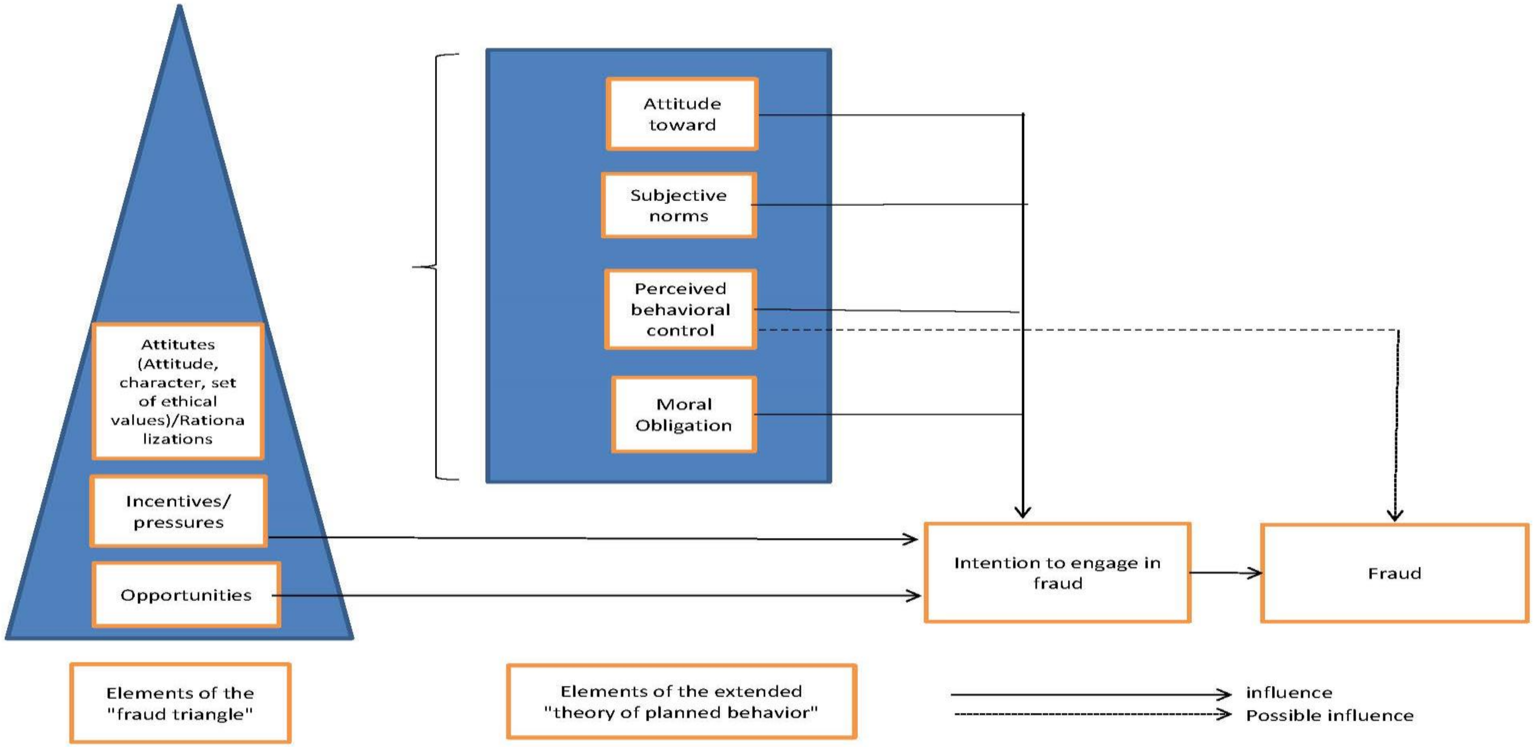
Cohen *et al.* (2010) examined press reports of thirty-nine cases of fraud in the US that went public from 1992-2005. Unlike other researchers, they did not look to the intention of the fraudster, but rather focused on the action of fraudsters as reported in the press. By integrating the FT and the TPB, they analysed the reports of fraud and cross-referenced the actual reported behaviour and attitudes to the relevant auditing standard (SAS 99 "Consideration of Fraud").

> *"It is potentially important that the professional standards that are related to fraud detection strengthen the emphasis on managers' behaviour that may be associated with unethical behaviour.*" (Cohen *et al.*, 2010, p.271)

The results of their study suggest that auditors should evaluate the ethics of management through the assessment of attitude, subjective norms, perceived behavioural control, and moral obligation.

> *"One implication from the results of our study is that auditors should place a special emphasis on evaluating the ethics of individuals through the assessment of attitude, subjective norms, perceived behavioural control and moral obligation- the components of the TPB." (*Cohen *et al.*, 2010, p.288)

Figure 3.3 Combining the Fraud Triangle (FT) and Theory of Planned Behaviour (TPB)



Reproduced from Cohen *et al*. (2010)

Cohen *et al.* (2010) also used the other elements of the FT, pressures, and opportunities, to assess the relevance of that framework in the context of the frauds in their study. They found that pressures and opportunities were present in all the cases examined, however they found some of the pressures and opportunities identified in the cases studied were not included in SAS 99.

The research undertaken by Cohen *et al.* (2010) was considered *"novel and unique"* (Trompeter *et al*., 2013, p. 293). Their research noted gaps in the auditing standards and suggested additions, especially to the attitudes/rationalisation element of the FT by using the TPB. Cohen *et al.* (2010) called for research to be undertaken in other jurisdictions, suggesting Europe in particular, using the FT/TPB framework. This dissertation answers that call for research and, using the FT/TPB framework, examines Irish Occupational Fraud.

3.7 Conclusion

This chapter examined the trajectory of fraud literature from the 1940s, with the development of the Fraud Triangle, which forms the basis of subsequent theories of fraud prevention and detection. It reviewed the research confirming the validity of the fraud triangle. It reviewed the research on the three elements of the fraud triangle, pressures, opportunities and rationalisation. It then reviewed frameworks that looked to expand the fraud triangle, to further develop tools to assist those involved in the prevention and detection of fraud. This chapter introduced the FT/TPB framework developed by Cohen *et al.* (2010) whose validity was verified by empirical evidence gathered from US fraud cases. The researcher will use this framework in this dissertation to assess the adequacy of auditing standards in the detection of occupational fraud.

Chapter 4 Methodology

4.1 Introduction

This chapter defines the term research. As the research methodology is determined by what the researcher wants to discover, this chapter sets out the research objective and then determines the methodology to be used to answer these questions. It begins with a broad discussion on research classification and then focuses on the appropriate research method for this study. It describes how the data for this study is collected, and the processes used to analyse this data. It presents the data which will be used in the rest of this study.

4.2 Research Definitions

Research can be described as work or activities undertaken by people in a systematic way with the aim of finding things out and increasing their knowledge (Barrachina *et al*., 2004; Kumar, 2005; Saunders *et al*., 2011). Systematic means that the researcher "*follows a certain logical sequence*" (Kumar, 2005, p.8) when carrying out the research. Finding things out suggests that the researcher has a clear purpose or topic that s/he wishes to find out about (Burns, 1994; Kumar, 2005; Saunders *et al*., 2011). As the research, methodology is determined by what the researcher wants to find out, the first and most important step of the research process is the formulation of the research objective (Kumar, 2005; Saunders *et al*., 2011).

4.3 Research Objective

The researcher completed a Post Graduate Diploma in Forensic Accounting in 2011. This is a qualification aimed at qualified accountants, focusing on financial fraud and financial investigation. Following on from this, the researcher was interested in doing a research Masters to investigate the profile of a fraudster in Ireland. As a first step in refining the research objective, the researcher conducted an in-depth review of extant literature in the area. According to Hakim (1987), the literature review is:

> "*commonly part of the ground-clearing and preparatory work undertaken in the initial stages of empirical research*" (Hakim, 1987, p. 17).

This groundwork then provides a platform for the research (Levin, 2008).

The literature review in this instance involved searching academic journals, books, on-line databases, the internet, technical magazine articles and conference papers. The search terms "fraudster" and "profile of a fraudster" were used initially. While reading the resultant literature, the researcher came across the Cohen *et al*.'s (2010) article. This provided a unique framework (combining the fraud triangle (FT) and the theory of planned behaviour (TPB)) and a research methodology that appealed to the researcher. In their research, Cohen *et al.* (2010) used the FT/TPB framework to determine whether the US auditing standard sufficiently covered the elements of the fraud cases reported in the press. The researcher thought that a similar study in an Irish context would be an interesting and worthy topic of research.

The researcher then decided to examine the literature attempting to define fraud. Not only was it apparent that fraud is difficult to define, but it was also apparent that the number of convictions for fraud in Ireland appears to be significantly less than the number of apparent frauds committed. In order to determine how frauds are studied, the progression of models and theories of fraud from the 1940s to the present day were tracked. The auditing standard developed to assist auditors in the detection of fraud was reviewed, with the caveat that it is not the primary responsibility of the auditors to safeguard the assets of an organisation or to detect fraud. The directors of a company have the main responsibility for the safeguarding of a company's assets. The researcher decided, based on this review of the literature, to also explore the other reasons for the low conviction rate for fraudulent activities in Ireland.

From reviewing the literature available, the researcher recognised a lack of research into Irish occupational fraud. Cohen *et al.* (2010) called for their work to be validated in other jurisdictions. This research will answer this calling by replicating Cohen *et al.*'s work in an Irish context to determine the sufficiency of the International auditing standard (ISA 240). The research will also use this material to review the difficulties (or reluctances) in convicting occupational fraud in Ireland.

The objective of this study is to examine:

> *Is there sufficient guidance to detect, and obtain a conviction for, occupational fraud in Ireland?*

This research aims to achieve this objective by answering the following questions:

1. Is the auditing standard (ISA 240) sufficient to capture the breadth of extant occupational fraud in Ireland?

This question aims to document whether the reported facts of Irish occupational fraud cases correspond to the red-flags provided in ISA 240. The findings of this research question will be used to make recommendations to standard setters as to how auditing standards might be enhanced in the future.

2. Why is it difficult to bring a conviction for fraud in Ireland?

The second question aims to understand why there is a dearth of fraud convictions in Ireland. One of the key findings of the literature review was that convictions for fraud were difficult to pursue and the researcher aims to determine the main reasons for this difficulty.

4.4 Research Methodology

The research method is the logic that links data to be collected (and the conclusion to be drawn) to the initial questions of a study (Benbassat, 1987; Yin, 1989; Guba and Lincoln, 1994; Collis and Hussey, 2009). Therefore, researchers have to allow the particular paradigm chosen for any study to be driven by the research questions being investigated (Guba & Lincoln, 1994). The main categorisation of research methodologies is that of qualitative and quantitative research. The choice between qualitative and quantitative modes of enquiry depends upon the aim of the research and the use of the findings (Kumar, 2005). Benbassat (1987) has the same opinion stating that research methods are classified according to "*the question being investigated*" (Benbassat, 1987, p. 48).

4.4.1 Qualitative Research Techniques

Qualitative research techniques permit the interpretation of results and allow a creative and in-depth analysis over the course of the study. However, this can result in the ideal of objective collection of purely descriptive 'facts' becoming blurred (Adam and Healy, 2000). Qualitative research techniques are used as exploratory methods when the variables and theory base are unknown (Morse, 1991; Creswell, 2003). According to Morse (1991):

> *"Characteristics of a qualitative research problem are: a) the concept is "immature" due to a conspicuous lack of theory and previous research; b) a notion that the available theory may be inaccurate, inappropriate, incorrect, or biased; c) a need exists to explore and describe the phenomena and to develop theory; or d) the nature of the phenomenon may not be suited to quantitative measures."* (Morse, 1991, p. 120)

In qualitative research the researcher collects data in the form of words gathered by observations, interviews, documents, audio, visual materials and the researcher's impressions and reactions (Miles and Huberman, 1994; Meyer, 1997; Creswell, 2003). Hakim (1987) states that qualitative research offers:

> "*richly descriptive reports of individuals' perceptions, attitudes, beliefs, views and feelings, the meaning and interpretations given to events and things, as well as their behaviour.*" (Hakim, 1987, p. 26)

The data is then used to pose, refine and answer the research questions (Adam and Healy, 2000). It involves the researcher attempting to *"make sense of, or interpret, phenomena in terms of the meaning people bring to them*" (Denzin and Lincoln, 1998, p. 3). It is a necessity in qualitative research that the researcher ensures that they remain objective (Merriam, 1998). Examples of qualitative research are content analysis, case study research, action research and ethnography (Meyer, 1997). These are particularly applicable to exploratory research, as exploratory research is a valuable means of finding out

> "*what is happening; to seek new insights; to ask questions and to assess phenomena in a new light.*" (Robson, 2002, p. 59).

This is an exploratory study, as the researcher wishes to explore a research topic not previously examined in Ireland. The definition of fraud is non-existent in Irish legislation and due to the impact of occupational fraud it needs to be examined in-depth. This research will use content analysis to examine the words used in Irish press reports to determine if these elements are adequately covered in the auditing standard. However the researcher will not limit herself to qualitative analysis, she will also quantitatively analyse the data where relevant to strengthen the findings.

4.4.2 Quantitative Research Techniques

There are those who think that when textual data is quantified the researcher's objective of understanding a phenomenon from the point of view of the participants and its particular social and institutional context is lost (Meyer, 1997). They argue that quantitative analysis is too narrow, obsessively mathematical, and of little benefit to problems that involve complex multiple factors and uncertainty (Hopper *et al.*, 2001).

However others believe that research processes that are purely qualitative can be very unrefined and less objective than quantitative approaches (Kirk and Miller, 1998). Robson (2002) stated that there is:

> "*no clear and accepted set of conventions for analysis corresponding to those observed with quantitative data.*" (Robson, 2002, p. 370).

This study is exploratory; therefore the researcher feels that in this piece of research the quantitative analysis adds strength to the rich findings of the qualitative analysis. A mixture of qualitative and quantitative analysis of the data will provide insight, discovery and interpretation which are suitable to answering the research question posed (Olson, 2004).

4.5 Content Analysis

Content analysis is a research method, which "*draws inferences from data by systematically identifying characteristics within the data*" (Jones and Shoemaker, 1994). The data used in content analysis may be from primary sources such as field notes or interview transcripts, or from secondary sources such as reports, newspaper articles or broadcasts (Collis and Hussey, 2009). The use of secondary data, rather than spending a lot of time collecting primary data, leaves more time to analyse the data. A number of approaches may be used to analyse the data. The researcher may use subjective analysis, a semi-objective approach, thematic, meaning-orientated content analysis, readability, or linguistic analysis (Beattie *et al*., 2004). The analysis enables researchers to classify content into categories and trends from the text, and then draw inference from them (Jones and Shoemaker, 1994).

Content analysis is usually a qualitative research method used where the researcher is *"faced with a mass of open-ended material"* (Mostyn, 1985, p. 117). When the amount of qualitative data available is unwieldy, the researcher can either find a basis for selecting a sample, or use methods such as selecting words or phrases, a theme or time allocated to reduce the qualitative data into coding units (Beattie *et al*., 2004; Collis and Hussey, 2009). If coding units are used, a coding frame can be constructed to incorporate the relevant data for the study undertaken (Collis and Hussey, 2009).

> *"Of the semi-objective approach, some specify ex ante a list of items and scrutinise the text for their presence, ignoring sections of the text that do not relate to this list. It is a fairly objective, form-oriented content-analytic method."* (Beattie *et al.,* 2004, p. 208)

The main advantage of content analysis is its unobtrusive characteristic. Documents can be evaluated without the knowledge of the topic (Jones and Shoemaker, 1994; Kababoff *et al.*, 1995) and the subjects included in the study are unlikely to be influenced in their behaviour (Collis and Hussey, 2009). Another advantage is that it uses natural verbal expressions as its database. If terms change over time, this method is adaptable in its analysis of text (Jones and Shoemaker, 1994; Kababoff et al., 1995). A further advantage is that a systematic and quantitative approach can be applied to qualitative data (Jones and Shoemaker, 1994). Collis and Hussey (2009) recommend content analysis as:

> "*you need only select a population or sample and you have a permanent record which can be examined many times."* (Collis and Hussey, 2009, p. 166)

However they also state that the main problem with content analysis is that the method of collecting the data may be part of the analysis and it is not always obvious how the research has "*summarized hundreds of pages of qualitative data to arrive at the findings*" (Collis and Hussey, 2009, p. 163).

The research objective of this study is best fulfilled by carrying out content analysis of press articles reporting convictions of Irish occupational fraud. The period from January 2002 to December 2013 was chosen, as it was subsequent to both the enactment of the Criminal Justice (Theft and Fraud) Offences Act 2001 on the December 2001, which is the most recent fraud related legislation in Ireland, and the introduction of ISA 240, which is the auditing standard against which the reported facts of the cases studied, will be matched. The words used in Irish press reports were examined to determine if these elements are adequately covered in the auditing standard. The results will be tabulated and qualitatively and quantitatively analysed to provide answers to the questions posed.

4.6 Selection and Analysis of Data

This study used the national newspapers and the national broadcaster as its sources of data. These sources reported on court cases recording details of the case, together with any relevant comments from judges and witnesses. Miller (2006) and Dyck *et al.* (2010) found that the media has an important role in monitoring accounting fraud due to the pressure it places on management. Cohen *et al.* (2010) describe two key roles of the media. Firstly, in presenting information it has received from other sources, such as auditors, analysts or lawsuits, it attracts the attention of institutions such as regulatory bodies, consumer groups, investment funds that may take action (Dyck *et al*., 2008, Cohen *et al*., 2010). Secondly, the press can add new information through its own investigations (Miller, 2006; Cohen *et al*., 2010). Miller (2006) states that an investigative report can create negative reaction in the market. This finding suggests that the press plays an important role as a monitor or information intermediary in financial markets. Cohen *et al.* (2010) also recognized that the media may be tempted to "*highlight fraudulent behaviour to increase circulation*" (p.277).

In this study, in the first instance the archive of "The Irish Times" was selected for review, as it is the biggest selling broadsheet newspaper in Ireland. The researcher searched the archive on a month-by-month basis, starting from February 2014 and working backwards to January 2002, using the search term "fraud" to isolate newspaper reports which included this word. The articles identified using the search term "fraud" were read to determine whether they were relevant to this study. As this research is examining occupational fraud committed by employees or agents of companies, in order to identify the relevant articles their content was scrutinised for relevance to this study. Cases of non-occupational fraud such as social welfare fraud, insurance fraud, marine fraud, money laundering, counterfeiting, or fraud against an individual were discarded. As the focus of the study is occupational fraud prosecuted in Ireland, cases of occupational fraud committed outside of Ireland were also discarded. Cases identified which related to Irish companies but where the fraud was committed outside of Ireland (Greencore – Campsie fraud in Scotland) were also discarded.

The archives of the other main broadsheets in Ireland, The Irish Independent (www.irishindependent.ie), The Irish Examiner (www.irishexaminer.com) and the main national broadcaster Radio Telifis Eireann (www.rte.ie) were searched to corroborate the details of cases identified and to identify any further cases. Details of two further cases were found using these sources, as the reports of these cases included in the Irish Times archives included insufficient detail to enable full analysis of the facts of the case.

The researcher reviewed all of the articles that referred to convictions for occupational fraud in Ireland from 2002 to 2013 and confirmed, by re-reading them, that they were convictions under the Criminal Justice (Theft and Fraud) Offences Act 2001. These cases were then re-read to confirm that they relate to occupational fraud in Ireland in the relevant time. The result of this review formed a full population of forty-one occupational fraud cases convicted from 1 January 2002 to 31 December 2013 and reported on in the Irish media (see Table 4.1 below).

Of the forty-one cases, there were eleven convictions where the fraudsters acted in collusion. These frauds were targeted against five organisations (Bovale Developments, Professional Door Staff Limited, Coca Cola/Robert Roberts, HSE and Eircom). By combining the cases of collusion to one case of fraud against an employer, the population of cases was reduced to thirty-five unique occupational fraud cases for inclusion in the analysis.

The content of each of the relevant press articles was firstly categorised into the types of fraud committed and given the code AM for asset misappropriation or FFR for fraudulent financial reporting. Tables 5.1, 5.2 and 5.3 were produced from this data detailing the value of each type of fraud and how it was committed. Tables 5.2 and 5.3 were later used to illustrate the multifarious ways in which fraud can be committed.

Table 4.1 Irish Occupational Fraud (January 2002 to December 2013) [2]

	Company	Name	Publication	Date published
1	Eddie Rockets[3]	John Carlos	www.irishtimes.ie	04/02/2014
2	National Concert Hall, Forest Tosca [4]	Mary O'Toole	www.irishtimes.ie	17/01/2014
3	Bovale Development	Michael Bailey	www.irishtimes.ie	10/12/2013
4	Bovale Development	Thomas Bailey	www.irishtimes.ie	10/12/2013
5	Whelan Group	Enda Whelan	www.irishexaminer.ie	20/07/2013
6	Dáil Eireann	Ivor Callely	www.irishtimes.ie	11/07/2013
7	Sunmount Services	Karl McCaughley	www.irishtimes.ie	30/04/2013
8	Dept of Social and Family affairs (1)	Brian King	www.irishtimes.ie	11/04/2013
9	Begley Brothers Limited	Paul Begley	www.irishtimes.ie	10/03/2013
10	Professional Door Staff Limited	Anthony Malone	www.irishtimes.ie	23/02/2013
11	Professional Door Staff Limited	Enda O'Rafferty	www.irishtimes.ie	23/02/2013

[2] Searches of the archives were undertaken in January and February 2014 and all the cases included here were reviewed during those dates

[3] This case was sentenced in 2014 but related to a conviction in 2013 so it was included in the study

[4] This case was sentenced in 2014 but related to a conviction in 2013 so it was included in the study

	Company	Name	Publication	Date published
12	Loganroy Consultants Limited	Gary Wynne	www.irishtimes.ie	14/01/2013
13	Charterhouse Mortgage Centre Limited	Gerard Killally	www.irishtimes.ie	26/11/2012
14	Derek Floyd	Derek Floyd	www.irishtimes.ie	25/05/2012
15	Connolly Sellor Geraghty	Gary Carroll	www.irishtimes.ie	20/01/2012
16	Mayo County Council	Tom Gilboy	www.irishtimes.ie	26/11/2011
17	Dept of Social and Family affairs (2)	Donal McBride	www.irishtimes.ie	25/05/2011
18	FAS	James Brooke-Tyrell	www.rte.ie	30/03/2011
19	AJH Construction	Alan James Hynes	www.irishtimes.ie	01/03/2011
20	Ancove Enterprises Limited	Chelyl Nielsen	www.irishtimes.ie	10/02/2010
21	Bank Of Ireland (1)	Susan Dowling	www.irishtimes.ie	23/01/2010
22	Bank Of Ireland (2)	Wiktor Wolcaski	www.irishtimes.ie	20/10/2009
23	Vodafone	Niall Barron	www.irishtimes.ie	01/07/2009
24	Bank Of Ireland (3)	Darren McComiskey	www.irishtimes.ie	17/03/2009

	Company	Name	Publication	Date published
25	Coca Cola, Robert Roberts	Stephen Doyle	www.irishtimes.ie	18/12/2008
26	EBS, Musgrave C&C	Emer Kelly	www.irishtimes.ie	18/12/2008
27	Coca Cola, Robert Roberts	Darren Cahill	www.irishtimes.ie	18/12/2008
28	Coca Cola, Robert Roberts	David Neill	www.irishtimes.ie	18/12/2008
29	Galway County Council	Michael Fahy	www.irishtimes.ie	03/12/2008
30	Revenue Commissioners	Michelle Twomey	www.irishtimes.ie	05/10/2008
31	Autoglass	Claire Mahon	www.irishtimes.ie	03/05/2008
32	Brown Thomas	Adam Brennan	www.irishtimes.ie	12/03/2008
33	Celerity Fluid Systems	Ann Levins	www.irishtimes.ie	14/10/2006
34	European commission office	Ann Levins	www.irishtimes.ie	05/10/2006
35	HSE (1)	Cara Canavan	www.irishtimes.ie	08/03/2006
36	HSE (2)	Abotomi L Adedeji	www.irishtimes.ie	10/02/2006
37	HSE (2)	Olusola A Falegan	www.irishtimes.ie	10/02/2006

	Company	Name	Publication	Date published
38	Johnson Controls	Timothy Elliot	www.irishtimes.ie	02/02/2005
39	Eircom	Damien Vaughan	www.irishtimes.ie	13/11/2004
40	Eircom	Eugene Fitzsimons	www.irishtimes.ie	13/11/2004
41	Irish County Houses and Restaurant Association	Aoife Byrne	www.irishtimes.ie	27/10/2004

The next step was the extraction of the relevant content from the articles (such as quotes from the fraudster, rulings from judges in the cases and journalists' analyses) and the allocation of these to each of the elements of the Fraud Triangle (pressures, opportunity and rationalisation) and the elements of the Theory of Planned Behaviour (attitude towards fraud, subjective norms, perceived behaviour controls, and moral obligation). The results are presented in Table 5.4. This was subsequently used to prove that the FT/TPB model was suitable for this study.

The elements included in Table 5.4 were then further coded by examining whether they were present or not present in the red-flags, given by way of examples in the relevant auditing standard (ISA 240). They were coded, in the same manner as that used by Cohen *et al.* (2010), by being marked as P if it was present in ISA 240 or NP if it was not present in ISA 240. The results are presented in Table 6.1. It is the qualitative and quantitative analysis of this data that provides the answer to the first research question posed in this study. Table 5.4 and table 6.1 will be discussed in chapters five and six.

The researcher completed this research of Irish occupational fraud to validate the findings of Cohen *et al.* (2010) in an Irish context and to make a valuable contribution to corporate governance and financial accounting literature in Ireland.

4.7 Conclusion

The research objective and the resultant research questions were clarified in this chapter. This clarification was then used to identify the research methodology to be used. While this exploratory research is qualitative by nature, this chapter justified the mixture of qualitative and quantitative approaches applied to the data extracted from press reports and the subsequent comparison to the red-flags identified in the auditing standard.

Using the data identified from the content analysis, the validity of the use of the FT/TPB framework will be tested in Chapter five and then a further analysis of the data will provide answers to the research questions in the final chapter of this dissertation.

Chapter 5 Relevance of the FT/TPB Framework

5.1 Introduction

This chapter elucidates the initial part of the findings of this research. It divides the Irish occupational fraud cases from 2002 to 2013 into two categories: Asset Misappropriation (AM) or Fraudulent Financial Reporting (FFR). These are the two categories used in both Cohen *et al.'s* (2010) work, which this study is paralleling in an Irish context, and in the relevant auditing standard (ISA 240). It then lists the methods used to commit the acts of fraud in the Irish cases. Ultimately, it compares the elements of the Irish cases to the Fraud Triangle and Theory of Planned Behaviour (FT/TPB) framework to determine whether it is a relevant framework to use in this study.

5.2 Types of Occupational Fraud

The reports of the Irish press were scrutinised over a twelve year period, from 2002 to 2013, and identified thirty-five cases of occupational fraud in Ireland, involving forty-one fraudsters. In thirty of these cases the fraudsters were employees or directors of the organisations, in the remaining five cases the fraudsters were contractors to the organisations. The value of the thirty-five occupational fraud cases in this study was almost €19.3 million. These are categorised into Asset Misappropriation and Fraudulent Financial Reporting in Table 5.1 below. This is the categorisation used in the auditing standards and throughout this study

Table 5.1: Value of fraud in Irish cases from 2002-2013

Type of Fraud	Value of Fraud (€)	Total Cases
Fraudulent Financial Reporting (FFR)	12,641,000	6
Asset Misappropriation (AM)	6,642,000	29
Total	**€19,283,000**	**35**

Of the thirty-five cases of fraud identified, twenty-nine were AM and only six were FFR. As shown in Table 5.1 above, the twenty-nine cases of AM totalled €6,642,000, whereas the six cases of FFR totalled €12,641,000. Even though the number of cases of FFR is significantly lower than the cases of AM, it does need to be analysed, as the total value of fraud by FFR is nearly twice the overall value of the AM fraud documented.

5.2.1 Fraudulent Financial Reporting (FFR)

FFR is when the financial reports of the organisation are deliberately manipulated. The methods used to perpetrate FFR in the six Irish cases are established in Table 5.2 below.

Table 5.2: Methods and Values of FFR cases

Method of FFR	Value of Fraud (€)	Cases studied
PAYE/PRSI fraud	6,000,000	1
Excise Duty fraud	1,600,000	1
VAT fraud	1,041,000	3
Invoice discounting fraud	4,000,000	1
Total	**€12,641,000**	**6**

Five of the six cases are due to the deliberate falsification of financial records to reduce the tax liability of the organisation. The largest of these cases, valuing €6 million was to reduce the PAYE/PRSI payable to the revenue commissioners and the other four were to reduce the companies' liability of VAT. In the first case, the directors of Bovale underestimated the gross earnings of the directors over a two-year period, using, according to the Judge in the case, "*systematic falsification*" of records. The (PricewaterhouseCoopers) PwC partner reviewing the case stated that in his 35-year career he had "*never encountered such a failure to maintain proper books and records*" (Irish Times, 10/2/13). Another FFR case is the infamous garlic fraud case, where the director of Begley Brothers deliberately mislabelled the import of Chinese garlic as apples to avail of a lower rate of excise duty. In doing so, the company saved €24,000 per shipment. The overall cost of the fraud was a €1.6 million loss to the exchequer. The sixth case of FFR involved a director of the Whelan group falsifying the accounting records for the purposes of invoice discounting, thereby defrauding the Bank of Scotland of €6 million. The prosecution in the case did not believe that a fraud of this scale could be carried out over such a long period by a single director, however only one individual was convicted in the case.

Even though there were only six convictions for FFR in Ireland between 2002 and 2013, it is the value of the fraud that is of concern here. The five tax frauds and the invoice discounting fraud caused a substantial loss for the exchequer and the bank involved. The six cases of FFR overall totalled €12,641,000.

5.2.2 Asset Misappropriation (AM)

In Asset Misappropriation, fraudulent measures are used to gain possession of assets of the company. In the twenty-nine cases of AM the means of committing fraud varied widely, with ten different means identified by the researcher in Table 5.3 below.

Table 5.3: Methods and Values of AM cases

Method of AM	**Value of Fraud (€)**	**Cases Studied**
False invoices	4,802,000	8
Cheque/credit card/bank transfers	807,000	8
Overriding IT systems	506,000	3
False expense/overtime claim	205,000	3
False revenue claims for others	160,000	2
Customer receipts	77,000	1
Unauthorised work undertaken on private property	30,000	1
Cash swapped for gift cards	20,000	1
Forged ownership documentation	18,000	1
Deliberate overpayment to customer, keeping refund	17,000	1
Total	**€6,642,000**	**29**

Eight cases of AM, representing 73% of the overall value of AM cases, involved fraudsters submitting false invoices. One of these cases involved an employee of Vodafone, the Financial Services Chief, submitting fictitious and inflated invoices for services not received by Vodafone. The total value of this fraud was €2,300,000. Another example of AM was €600,000 defrauded from FÁS by an assistant manager of video production. He created a false tendering process, resulting in the awarding of the contract to a company he had set up himself with very similar names to legitimate suppliers. The contract was awarded to his company named “The Yard Media” (the former supplier was named “Yard Media Limited”). In that case, the judge stated that given

> "*the prevalence of this type of crime, the significant breach of trust and the very skilful sustained way [the fraudster] had put together bogus companies and maintained the charade for five years*" (www.rte.ie , 30/3/11)

the courts need to have the full force of the law to ensure prosecution of those who breach the trust of an employer, especially when there is no hope of restitution. Another example involved an agent of Coca Cola and Robert Roberts building-up a good reputation and credit history and then defrauding the companies of €800,000.

A further eight cases, totalling almost €807,000, involved fraudsters using company credit cards or cheques to defraud their employers. One of the cases consisted of an employee using a credit card under the name of one of the directors resulting in a loss of €78,000 to the company. The other six cases arose from the fraudsters having cheques written under false pretences in their own names and putting the suppliers name in the cheque stub or getting cheques signed under false pretences by other employees. In a further case, a long-standing employee of Eddie Rockets forged cheques and then, by moving the money from one account to the other, tried to hide what he was doing.

There were three cases of fraudsters overriding IT systems resulting in total losses of €506,000. Two of these cases took place in Bank of Ireland. In one case an employee gave his girlfriend an unauthorised overdraft and in the other a bank-teller skimmed customers' credit cards while working at the bank counter. In the third case of this category, an employee of the HSE knew her supervisor's password and authorised payments totally €146,000 to herself.

There were also three cases of false claims for expenses or overtime. Two politicians made false expense claims; one was convicted of submitting €15,000 false telephone invoices and the other claimed €43,000 of false travel expense from Mayo Council. The third case of false expense claims involved a Department of Social Affairs Senior Manager over-claiming €147,000 of overtime, by adding his name to the end of the approved overtime lists.

In a further two cases the fraud was carried for the benefit of someone else. In one case, a Revenue Commissioner employee gave €108,000 tax refunds to family and friends. The other case is where two HSE employees falsely approved €52,000 allowances for family members. In both cases the recipients had not requested the refunds and allowances.

The five remaining cases were for smaller amounts, with one occurrence of each type of fraud. In Ancove Enterprises Limited, the accountant kept payments received from customers and then raised credit notes to cover the monies taken. In another case a Galway County Councillor got council workers to undertake €30,000 of unsanctioned work on his private property. In a further case an employee replaced cash taken in with used gift vouchers. A director of Charterhouse Mortgage Centre, which was in liquidation at the time of the fraud, forged ownership documents of company assets and then removed them from the premises. Finally a Department of Social and Family Affairs employee purposely gave clients overpayments and then requested the overpayment to be refunded and he kept the money received.

The multiplicity of methods used to carry out AM fraud may be one of the reasons that it is difficult to detect. In the cases reported between 2002 and 2013 in Ireland there were ten methods ranging from complex methods of false invoicing and overriding IT systems to more simple methods of false expense and overtime claims.

5.3 FT/TPB Framework

Cohen *et al.* (2010), in their study of thirty-nine cases of fraudulent activity in the US, used a FT/TPB framework (See figure 3.3), which combined the Fraud Triangle (FT) with the Theory of Planned Behaviour (TPB). In the FT framework the elements of fraud are divided into incentive/pressure, opportunities and attitude/rationalisation. The TPB framework further divides the attitude/rationalisation element into attitude towards fraud, subjective norms, perceived behaviour controls and moral obligation (see Table 5.4). Using the FT/TPB framework, Cohen *et al.* (2010) compared actual reported fraudulent behaviour in the thirty-nine US cases to the relevant auditing standard (SAS 99), the US equivalent to ISA 240.

To determine whether the FT/TPB framework is suitable to this current study, the Irish press reports of the thirty-five cases identified were analysed according to the FT/TPB framework. The findings of the in-depth analysis of the press articles of the occupational fraud cases identified are presented in Table 5.4 below. This table categorises the reported details of the cases into incentive/pressure, opportunities and rationalisations. The rationalisations were further analysed into attitude toward fraud, subjective norms, perceived behavioural control and moral obligation.

Table 5.4: Irish Occupational Fraud (2002-2013) mapped to FT/TPB

No	Company/Date Reported	Name	Incentive/ Pressure	Opportunities	Attitude towards fraud	Subjective norms	Perceived behaviour control	Moral Obligation	M/F	Position	Value of Fraud €'000	Age
1	AJH Construction (3/1/11)	A J Hynes	Significant financial interest in company and recurring negative cash flow	False invoices to pay less VAT	Minimise earnings for tax-motivated reasons			Put money back into the company	M	Director	110	
2	Ancove Enterprises Ltd (10/2/10)	C Neilson	Lavish Lifestyle	Kept customer payments and raised credit notes					F	Financial Controller	77	42
3	Autoglass (3/5/08)	C Mahon	Lavish Lifestyle	Wrote cheques to herself and put suppliers name on stub					F	Clerical	99	25
4	Bank of Ireland (1) (23/1/10)	S Dowling	Keeping up with peers lifestyle	Got other departments to write her cheques	Disregard for internal controls				F	Manager	103	37

No	Company/Date Reported	Name	Incentive/ Pressure	Opportunities	Attitude towards fraud	Subjective norms	Perceived behaviour control	Moral Obligation	M/F	Position	Value of Fraud €'000	Age
5	Bank of Ireland (2) (20/10/09)	W Wolcaski	Personal Debts of girlfriend	Gave his girlfriend an overdraft facility	Disregard for internal controls and Felt he would only be reprimanded			To help his girlfriend's financial position	M	Clerical	40	29
6	Bank of Ireland (3) (17/3/09)	D McComiskey	Under pressure from East European bouncers	Skimmed customers card			Tried to take sick leave but felt forced into it (weak)		M	Clerical	320	24
7	Begley Brothers Ltd (10/3/13)	P Begley	Significant financial interest in company	Using inappropriate means to reduce Excise duty bill	Minimise earnings for tax-motivated reasons			The Excise duty charge on garlic was excessive	M	Director	1,600	147
8	Bovale Development (10/12/13)	M and T Bailey	Significant financial interest in company	Consistent and deliberate false accounting	Minimise earnings for tax-motivated reasons			To minimise cash outflow	M	Director	6,000	47 and 60

No	Company/Date Reported	Name	Incentive/ Pressure	Opportunities	Attitude towards fraud	Subjective norms	Perceived behaviour control	Moral Obligation	M/F	Position	Value of Fraud €'000	Age
9	Brown Thomas (3/12/08)	A Brennan	Credit card Debt	Swapped cash for gift voucher					M	Clerical	20	26
10	Celerity Fluid Systems (14/10/06)	A Levis	Tarot card and physhic line debts and paying back others defrauded	Ordered and intercepted a cc for director				Using proceeds to payback previous victims	F	Clerical	78	35
11	Charterhouse Mortgage Centre (26/11/12)	G Killally	Company had gone into liquidation	Forged documents to say they belonged to him	Made no distinction between business and personal assets				M	Director	18	42
12	Coca Cola/Robert Roberts (16/12/08)	D Neill, D Cahill and S Doyle	Assets sold on	False invoices after giving false credit checks	Companies were large so wouldn't be affected				M	Contractor	800	49, 35, 36
13	Connolly Sellor Geraghty (20/1/12)	G Carroll	Gambling debt	Transferred cash between different accounts					M	Book keeper	261	52

No	Company/Date Reported	Name	Incentive/ Pressure	Opportunities	Attitude towards fraud	Subjective norms	Perceived behaviour control	Moral Obligation	M/F	Position	Value of Fraud €’000	Age
14	Dáil Eireann (11/7/13)	I Callely		False expense claims	Sense of entitlement				M	Politician	15	54
15	Dept. of Social and Family Affairs (1) (11/4/13)	B King	Gambling debt	Overpaid recipients, then requested a refund	Increased workload since recession				M	Senior Manager	17	48
16	Dept. of Social and Family Affairs (2) (25/5/11)	D McBride	Alcoholic and Depressed	Put his name onto overtime list after it was approved	Disregard for internal controls				M	Senior Manager	147	57
17	D Floyd (25/5/12)	D Floyd	VAT fraud and he got % of proceeds	False invoices for VAT claim		He felt he was the fall guy for the crime			M	Director	680	33
18	EBS, Musgraves, C&C (18/12/08)	E Kelly	Asset rich, cash poor	Cashed false cheques				Didn’t want to let staff go	F	Owner	50	42
19	Eddie Rockets (2/4/14)	J Carlos	Gambling	Pretended he was an accountant and forged signature					M	Manager	135	74

No	Company/Date Reported	Name	Incentive/ Pressure	Opportunities	Attitude towards fraud	Subjective norms	Perceived behaviour control	Moral Obligation	M/F	Position	Value of Fraud €'000	Age
20	Eircom (13/11/04)	D Vaughan and E Fitzsimons		Produced false invoices					M	Managers	88	30 and 46
21	European Commission Office (5/10/06)	A Levins		Forged cheques and cashed them	She continued to defraud after she was discovered				F	Clerical	64	35
22	FAS (30/3/11)	J Brooke-Tyrell	Living beyond his means	False invoices with names deliberately similar to existing suppliers	He wished to maintain his lifestyle				M	Manager	600	53
23	Galway County Council (3/12/08)	M Fahy	Work carried out on his own land	Requested works on his own land				If the money wasn't spent they would not be available next year	M	Politician	30	57

No	Company/Date Reported	Name	Incentive/ Pressure	Opportunities	Attitude towards fraud	Subjective norms	Perceived behaviour control	Moral Obligation	M/F	Position	Value of Fraud €’000	Age
24	HSE (1) (8/3/06)	C Canavan	Lavish Lifestyles	Knew her supervisor password and approved fictional payments					F	Clerical	146	33
25	HSE (2) (10/2/06)	O Ayodele Falegan and A Lateef Adedeji		Got allowances and payments for partners					M	Clerical	52	
26	Irish Country Houses and Restaurant Association (27/10/04)	A Byrne	Depression	Wrote cheques to herself					F	Clerical	17	
27	Johnson Controls (2/2/05)	T Elliot	Gambling	Created false invoices for payment					M	Clerical	21	40
28	Loganroy Consultants Ltd (14/1/13)	G Wynne	Significant financial interest in company	False invoices for VAT claim	To reduce VAT payment				M	Director	759	38

No	Company/Date Reported	Name	Incentive/ Pressure	Opportunities	Attitude towards fraud	Subjective norms	Perceived behaviour control	Moral Obligation	M/F	Position	Value of Fraud €'000	Age
29	Mayo County Council (26/11/11)	T Gilboy	Wanted to make his wife feel better	False expenses	Bigger fish had gotten away with it				M	Clerical	43	46
30	National Concert Hall/Forest Tosca (17/1/14)	M O'Toole	Personal Debt	False Invoices					F	Bookkeeper	190	44
31	Professional Door Staff Ltd (20/7/12)	E O'Rafferty and A Malone	Significant financial interest in company and recurring negative cash flow	False invoices for VAT claim	To reduce VAT payment		No business knowledge		M	Directors	172	39, 37
32	Revenue Commissioners (5/10/08)	M Twomey	Gave rebates of tax to friends	Approved rebates	Disregard for internal controls			They didn't ask for rebates	F	Clerical	108	48
33	Sunmount Services Ltd (30/4/13)	K McCaughley	Lavish Lifestyle	Falsified sales records	Turned up for hearing in new car but not enough to pay back				M	Agent	123	40

No	Company/Date Reported	Name	Incentive/ Pressure	Opportunities	Attitude towards fraud	Subjective norms	Perceived behaviour control	Moral Obligation	M/F	Position	Value of Fraud €'000	Age
34	Vodafone (7/1/09)	N Barron	Lavish Lifestyle	Requested services from his own company at inflated prices	Disregard for internal controls				M	Manager	2,300	
35	Whelan Group (20/7/13)	E Whelan	Cash flow difficulties	False records for invoice discounting		Could not have acted alone			M	Director	4,000	

It is evident from Table 5.4 that the incentive/pressure is reported in the majority of the case reports (thirty-one of the thirty five cases) and opportunity is reported in all of the cases. Therefore the first two elements of the FT framework are relevant to this study.

In relation to the attitude/rationalisation element, all of the FFR cases mentioned an attitude/rationalisation, however it was not mentioned in eleven of the twenty-nine AM press reports. There are three possible reasons for this. Firstly, just because it wasn't in the press report does not necessarily mean that it was not mentioned in the court cases, the press reporters may just not have found it newsworthy. Secondly, the rationalisation is internal to the fraudster, so it may not even have been discussed and consequently not reported in the court case. Thirdly, two of the cases involved a number of fraudsters acting together and two of the cases had serial fraudsters. As discussed in the literature review, this type of fraudster may require no excuses or rationalisations to commit a fraud (Dorminey *et al.*, 2012). The remaining twenty-four cases had thirty-two instances of attitude/rationalisation mentioned. These thirty-two instances were further categorised into the four elements of the Theory of Planned Behaviour. Twenty of the instances referred to the attitude towards fraud, three referred to subjective norms, one to perceived behavioural controls and eight to the moral obligation category. Therefore attitude/rationalisation, even though not included in all the press reports, still is an important element of these cases. Overall, the contents of the reported facts of the Irish fraud cases examined in the period 2002 to 2013 can be readily matched to the FT/TPB framework, deeming it to be a relevant model to use in this Irish context.

5.4 Conclusion

This study identified thirty-five cases of occupational fraud in Ireland reported in the press from January 2002 to December 2013. Auditing standards and the Fraud Triangle categorise occupational fraud into Fraudulent Financial Reporting and Asset Misappropriation. This chapter began by categorising the Irish cases in this manner. Of the thirty-five cases of Irish fraud, six related to FFR and twenty-nine to AM. However when the value of the fraud was calculated, it was found that the six FFR cases result in over 66% of the total value of fraud in the eleven year period analysed in this study, emphasising the need to examine both types of fraud. This chapter then confirmed the multiplicity of methods used to carry out fraud, by sub-categorising FFR and AM cases by the methods used to defraud an employer. It found four methods of committing FFR and ten methods of committing AM.

The content of the press reports of the thirty-five Irish cases from 2002 to 2013 were then analysed using the FT/TPB framework, to determine whether that framework could be applied to study of Irish fraud cases. The contents of the press reports were broken-down into incentive, opportunity and attitude towards fraud, subjective norms, perceived behaviour controls and moral obligation. This analysis established the relevance of the FT/TPB framework to the study of Irish fraud as all of the elements of the FT were available in most of the cases. Using this framework, the reported facts of the Irish occupational fraud cases will be compared to the content of the relevant auditing standard (ISA 240), in chapter 6, to determine the adequacy of the auditing standard in detecting fraud.

Chapter 6 Adequacy of Auditing Standard in Ireland

6.1 Introduction

This chapter examines the adequacy of the auditing standard in detecting occupational fraud in Ireland. The relevant auditing standard in Ireland is ISA 240 “The auditor’s responsibilities relating to fraud in an audit of financial statements.” In this chapter, the content of the press reports of the Irish cases of occupational fraud from 2002 to 2013 is compared to the red-flags[5] given to auditors in ISA 240 to establish whether the auditing standard includes or does not include examples of the elements of extant reported fraud cases in Ireland. It uses the elements of the FT/TPB framework to make this comparison.

6.2 FT/TPB framework to assess ISA 240

As stated in Chapter 2 of this study, ISA 240 “The auditor’s responsibilities relating to fraud in an audit of financial statements” is the auditing standard used in Ireland to guide auditors in the detection of fraud. It splits fraud into Asset Misappropriation (AM) and Fraudulent Financial Reporting (FFR). It presents red flags, by way of examples, to guide auditors to identify behaviours and situations which may indicate conditions where fraud has occurred or may have occurred in each of the two categories of fraud. These examples are included in Appendix A.

In Chapter 5 of this study, the thirty-five Irish cases, as presented in the press articles, were analysed using the FT/TPB framework, where the content of the press reports was split into the elements of the Fraud Triangle (FT) and the attitude/rationalisation element was further sub-divided into the elements of the

[5] Auditors commonly refer to risk indicators as red-flags. These were discussed in section 2.8.

Theory of Planned Behaviour (TPB). The current chapter compares that analysis with the language and examples used in the relevant auditing standard (ISA 240). The resulting analysis is presented in Table 6.1 below.

In Table 6.1 the columns titled "P" identify the elements reported in the Irish fraud cases which were present in ISA 240, the columns titled "NP" identify elements of the Irish cases of fraud which were not present in ISA 240. The incentives/pressure elements present and not present in ISA 240 are shown in more detail in Table 6.2 and Table 6.3 respectively. The opportunities elements present in ISA 240 are shown in more detail in Table 6.4. The attitude/rationalisation elements present in ISA 240 are shown in more detail in Table 6.5. Using the TPB, the attitude/rationalisation elements are further sub-divided into four elements. Those elements not present in ISA 240 are represented in Table 6.6, Table 6.7, Table 6.8 and Table 6.9.

Table 6.1: Elements of Irish occupational fraud cases 2002 -2013 mapped to red flags in ISA 240

No.	Companies	FFR/ AM	Incentive/ Pressure		Opportunities		Attitude/rationalisation							
							Attitude towards Fraud		Subjective Norms		Perceived behavioural control		Moral Obligatio n	
			P	NP	P	NP	P	NP	P	NP	P	NP	P	NP
1	AJH Construction	FFR	✓		✓		✓							✓
2	Ancove Enterprises Ltd	AM		✓	✓									
3	Autoglass	AM		✓	✓									
4	Bank of Ireland (1)	AM		✓	✓		✓							
5	Bank of Ireland (2)	AM		✓	✓		✓	✓						✓
6	Bank of Ireland (3)	AM		✓	✓							✓		
7	Begley Brothers Ltd	FFR	✓		✓		✓							✓
8	Bovale Development	FFR	✓		✓		✓							✓
9	Brown Thomas	AM	✓		✓									
10	Celerity Fluid Systems	AM	✓		✓									✓
11	Charterhouse Mortgage Centre	AM	✓		✓		✓							
12	Coca Cola/Robert Roberts	AM		✓	✓			✓						

No.	Companies	FFR/ AM	Incentive/ Pressure		Opportunities		Attitude/rationalisation							
							Attitude towards Fraud		Subjective Norms		Perceived behavioural control		Moral Obligatio n	
			P	NP	P	NP	P	NP	P	NP	P	NP	P	NP
13	Connolly Sellor Geraghty	AM	✔		✔									
14	Dáil Eireann	AM			✔			✔						
15	Dept. of Social and Family Affairs (1)	AM	✔		✔		✔							
16	Dept. of Social and Family Affairs (2)	AM		✔	✔		✔							
17	D Floyd	AM		✔	✔					✔				
18	EBS, Musgrave, C&C	AM	✔		✔									✔
19	Eddie Rockets	AM	✔		✔									
20	Eircom	AM			✔									
21	European Commission Office	AM			✔			✔						
22	FAS	AM		✔	✔		✔							
23	Galway County Council	AM		✔	✔									✔
24	HSE (1)	AM		✔	✔									
25	HSE (2)	AM			✔									
26	Irish Country Houses and Restaurant Assoc.	AM		✔	✔									

No.	Companies	FFR/ AM	Incentive/ Pressure		Opportunities		Attitude/rationalisation							
							Attitude towards Fraud		Subjective Norms		Perceived behavioural control		Moral Obligatio n	
			P	NP	P	NP	P	NP	P	NP	P	NP	P	NP
27	Johnson Controls	AM	✔		✔									
28	Loganroy Consultants Ltd	FFR	✔		✔		✔							
29	Mayo County Council	AM		✔	✔			✔						
30	National Concert Hall/Forest Tosca	AM	✔		✔									
31	Professional Door Staff Ltd	FFR	✔		✔		✔					✔		
32	Revenue Commissioners	AM		✔	✔		✔							✔
33	Sunmount Services Ltd	AM		✔	✔			✔						
34	Vodafone	AM		✔	✔		✔							
35	Whelan Group	FFR	✔		✔					✔				
	TOTAL	AM 29 FFR 6	15	16	35	0	13	6	0	2	0	2	0	8

Key: AM = Asset Misappropriation FFR = False Financial Reporting

P = Present in Auditing Standards (ISA 240) NP = Not Present in Auditing Standards (ISA 240)

6.3 "Incentive/pressure" in ISA 240

Thirty-one of the thirty-five Irish fraud cases from 2002 to 2013 had the incentive/pressure element of the case reported in the press. When comparing this element of these thirty-one cases to the examples given in the auditing standard, it was found that fifteen cases reported pressures which were present in ISA 240 (see Table 6.2 below) and the remaining sixteen reported pressures which were not present in ISA 240 (see Table 6.3 below).

Table 6.2: Incentive/pressure <u>present</u> in ISA 240

Element of the Fraud Triangle	Red Flags as presented in ISA 240	Companies Involved
Incentive/ pressure (FFR)	Significant financial interest in the entity	AJH Construction , Begley Brothers Ltd, Bovale Development, Loganroy Consultants Ltd
	Recurring negative cash flows from operations or an inability to generate cash flows from operations while reporting earnings and earnings growth	AJH Construction , Professional Door Staff Limited, Whelan Group
Incentive/ pressure (AM)	Personal financial obligations	Brown Thomas, Celerity Fluid Systems, Connolly Sellor Geraghty, Dept of Social and Family Affairs (1), EBS/Musgrave/C&C, Eddie Rockets, Johnson controls, National Concert Hall/Forest Tosca
	Adverse relationship between entity and employees with access to assets (layoffs)	Charterhouse Mortgage Centre Limited

Of the thirty-one cases, six were FFR cases and twenty-five were AM cases. The pressure element of all six of the FFR cases examined were present in two of the examples given in ISA 240, with one of the cases citing both examples as pressures. In four of the cases those convicted of the fraud were owner/managers of the business defrauded and therefore had what is described in ISA 240 as a "*significant financial interest in the entity*" (ISA 240). The second pressure cited in three of the cases could be described as experiencing "*recurring negative cash flows*" (ISA 240). These two pressures from ISA 240 are sufficient to cover all of the incentive/pressure from the Irish FFR cases.

The incentive/pressure reported in nine of the twenty-five AM cases is also present in two of the examples given in the relevant auditing standard. The first risk factor identified in the cases examined which is present in ISA 240 is personal financial obligations which "*may create pressure on management or employees with access to cash or other assets susceptible to theft to appropriate those assets*" (ISA 240). In eight of the cases, the fraudster had personal financial obligations. These obligations ranged from gambling debts, large mortgage repayments and debts from tarot reading and phychic lines as well as having to pay back previously defrauded employers. The second incentive/pressure in one of cases examined, which is present in ISA 240, is where there is an "*adverse relationships between the entity and employees*" where there was "*known or anticipated future employee layoffs*" (ISA 240). In the case reported, the director of the company was aware that the company was going into liquidation, and he then defrauded the company by forging asset ownership documents.

In sixteen reported cases of AM in Ireland the incentive/pressure identified in the press reports was not present in ISA 240. This study classifies incentive/pressure into five categories: lavish lifestyle, pressure from criminals, greed, depression and concern for others (see Table 6.3 below).

Table 6.3: Incentive/pressure <u>not present</u> in ISA240

Elements of the Fraud Triangle	**Examples NOT present in ISA 240**	**Companies involved**
Incentive/pressure (AR)	Lavish Lifestyle	Ancove Enterprises Limited, Autoglass, Bank of Ireland (1), Bank of Ireland (2), FAS, Galway County Council, HSE (1), Sunmount Services, Vodafone
	Pressure from criminals	Bank of Ireland (3)
	Greed	Coca Cola/Robert Roberts, D Floyd
	Depression	Dept of Social and Family Affairs (1), Irish Country Houses and Restaurant Association
	Concern for others	Bank of Ireland (2), Mayo County Council, Revenue Commissioners

In nine cases, the perpetrators had a lavish lifestyle that they wished to maintain. The researcher believes that this is beyond the scope of the pressure of personal financial obligations used in ISA 240. For example in one case "*there was no excuse or desperation for funds, it was simply to lead a high life*" (Irish Times 23/01/10). The fraudster had "*a swish peer group*" but also had "*a serious cocaine habit*" (Irish Times 23/01/10). In another case it was noted that the fraudster "*enjoyed a very affluent lifestyle*" (Irish Times 30/04/13). Another fraudster "*squandered money living the high life*" (Irish Times 10/02/10). In another case, an Eastern European bouncer, already convicted for other criminal offences, became aware that one of his customers worked in a bank. He threatened this customer into carrying out a skimming fraud. This pressure from criminals is not present in ISA 240. Another of the incentive/pressure not present in ISA 240 was greed as was seen in the case where Floyd got his customers to invest in a product and then defrauded the business of part of the proceeds. In the Coca Cola/Robert Roberts, the company agents sold assets which they had misappropriated. In two cases the incentive/pressure stated in the press reports was depression. One of these fraudsters was considered to be "*a person of impeccable character*" (Irish Times 25/05/11), while the other fraudster was said to be in a severe state of depression when she undertook a "*schematic fraud*" (Irish Times 27/10/04) on her employers. In a further three cases the incentive/pressure was concern for others. These concerns included wanting to make a family and loved ones feel better, even though in none of the cases was it reported that these family and friends requested the perpetration of the fraud. The three cases involved giving unauthorised tax allowances and unauthorised overdraft and giving the fraudster and his wife an unauthorised trip to cheer her up.

The examples given in ISA 240 were sufficient to cover all of the pressures reported in the FFR cases, but while ISA 240 does include a number of examples of pressures that auditors should look out for in AM cases, there is still a number of incentive/pressure found in the Irish cases which are not included. The findings of this research recommend that the examples given in ISA 240 should be extended to include additional elements such as lavish lifestyle, pressure from criminals, greed, depression and concern for others.

6.4 "Opportunities" in ISA 240

The opportunity element as reported by the press in all thirty-five Irish cases is present in the examples given in ISA 240. This is encouraging and perhaps not surprising as from the organisations point of view the opportunities part of the FT is the element over which it has control. If the opportunity is not there, then a fraud cannot take place. However, fraud does take place because sometimes the cost of having controls is greater than the perceived costs of potential fraud, or the organisation is so small that the control of segregation of duties is not possible. These are all present in the auditing standard.

In all six FFR cases the opportunity reported was <u>present</u> in one of the examples given in ISA 240 (see Table 6.4). There was what ISA 240 describes as "*domination of management by a single person without compensating controls*" (ISA 240) with all of the fraudsters in the Irish cases being the owner or director of the organisation involved.

Similarly, in the AM cases, all twenty-nine of the opportunities cited in press reports are also present in the auditing standard (see Table 6.4). They are represented in five of the examples. One of the red flags of ISA 240 is the opportunity that exists due to having "*large amounts of cash on hand or processed*" (ISA 240). This was present in the case where an employee was in charge of giving the cash to the security company and noticed that the security company staff had dropped an envelope of gift vouchers. The employee then began to swap gift vouchers for cash. Another red flag in ISA 240 is "*inadequate internal control over assets*" (ISA 240). This red flag is present in two of the AM cases. In the first case, a director falsified documentation to claim ownership of company assets when the company went into liquidation. In the second case, the manager ordered assets for the company but took possession of them himself and sold them on. In both these cases there would appear to have been inadequate control over the physical ownership of the assets. There have also been cases where management have what was described by ISA 240 as "*inadequate oversight*" (ISA 240) of expenses.

Table 6.4: Opportunities <u>present</u> in ISA 240

Element of the Fraud Triangle	Red Flags as presented in ISA 240	Companies Involved
Opportunities (FFR)	Domination of management by a single person without compensating controls	AJH Construction, Begley Brothers Ltd, Bovale Development, Loganroy Consultants Limited, Professional Door Staff Limited, Whelan Group
Opportunities (AM)	Large amounts of cash on hand or processed	Brown Thomas
	Inadequate internal control over assets	Charterhouse Mortgage Centre Limited, Eircom
	Inadequate oversight of senior management expenditure, such as travel and other re-imbursements	Dail Eireann, Dept. of Social and Family Affairs (2), Galway County Council, Mayo County Council
	Inadequate system of authorization and approval of transactions	Autoglass, , Coca Cola/Robert Roberts, EBS/Musgrave/C and C, Eddie Rockets, European Commission Office, FAS, HSE (2), Irish Country Houses and Restaurants Association, National Concert Hall/Forest Tosca, Johnson Controls, Revenue Commissioners,
	Inadequate segregation of duties and independent checks	Ancove Enterprises Limited, Bank of Ireland (1), Celerity Fluid Systems, Connolly Sellor Geraghty, Dept. of Social and Family Affairs (1), D Floyd, European Commission Office, Irish Country Houses and Restaurants Association, National Concert Hall/Forest Tosca, Sunmount Services, Vodafone
	Inadequate management understanding of information technology	Bank of Ireland (2), Bank of Ireland (3), HSE (1)

The four instances of inadequate oversight of expenses included submissions of expenses for work done on personal property, false telephone invoices, a false expense claim and a false overtime claim. ISA 240 also describes how an organisation could have an "*inadequate system of authorization and approval of transactions*" (ISA 240). Examples of such inadequacies in the Irish cases were that of an employee writing cheques to herself and then filling in supplier names in the stub or of an employee getting other departments to write them cheques. In another three cases, customer receipts were lodged into the fraudsters' personal accounts. These breaches of control systems could also be categorised as "*inadequate segregation of duties and independent checks*" (ISA 240). Due to the nature and size of some of the companies involved in the study "*inadequate segregation of duties and independent checks*" (ISA 240) may be inevitable. This was reported in eleven of the Irish cases in this study. As more systems become computerised, Information Technology (IT) control systems in a business become increasingly important. ISA 240 includes as one of the opportunities for fraud the "*inadequate management understanding of information technology*" (ISA 240). This existed in three the Irish cases studied. One where the fraudster had the opportunity to use the IT system to give his girlfriend an overdraft facility (Bank of Ireland (2)), another to skim customer cards (Bank of Ireland (3)) and, a third using an observation of a supervisors password, which was subsequently used to approve fictional transactions entered on the accounting system (HSE (1)).

The opportunities reported in all thirty-five of the Irish cases of fraud between 2002 and 2013 were present in the ISA 240. As the opportunities element of the FT is the element that would be most visible and controllable by the companies, it is not surprising that opportunities to commit fraud are adequately covered by ISA 240.

6.5 "Attitude/rationalisation" in ISA 240

The rationalisation element of a fraud is not always included in the media coverage. In eleven of the thirty-five Irish cases, no rationalisation was included in the press report. On the other hand, six cases reported multiple rationalisations of fraud. Thirty-one instances of attitude/rationalisation were found in the twenty-four cases for which it was reported. Ten of the thirty-one instances reported were in five of the FFR cases and the remaining twenty-two instances were in nineteen AM cases.

Utilising the TPB to further subdivide the rationalisation element of the cases into the following four sub-categories:

1. Attitude towards fraud.
2. Subjective norms.
3. Perceived behavioural control.
4. Moral obligation.

It was found that all of the rationalisations in the cases that are also present in ISA 240 come under the heading of attitude towards fraud (see Table 6.5). None of the elements found in the other three headings were present in ISA 240

6.5.1 Attitude towards Fraud in ISA 240

Attitude towards fraud refers to the extent to which a person has a favourable or unfavourable evaluation of the behaviour in question. If a person deems the behaviour acceptable then they are more likely to engage in it. Attitude towards fraud was mentioned in the press reports of nineteen of the Irish cases. Of these nineteen cases only thirteen were present in five of the examples given in ISA 240 (see Table 6.5 below). Of these thirteen cases, five were FFR and eight were AM.

In the five FFR cases the attitude towards fraud reported was present in two of the examples given in ISA 240 (see Table 6.5). All five cases reported *"an interest by management in employing inappropriate means to minimise reported earnings for tax-motivated reasons"* (ISA240). The cases included under-declaration of sales or over-declaration of purchases to reduce VAT and Excise payments and the under-statement of gross remuneration of the company directors to reduce tax.

Two of these cases also reported that *"the owner-manager makes no distinction between personal and business transactions" (*ISA 240). In one case, the company directors took more income from the company than recorded in the accounts and in the other case the owner/manager of the business felt that the company's assets belonged to him. This example was also used as a rationalisation in an AM case, where the VAT liability was under-declared, and the resulting extra revenue for the company was ploughed back into the business to purchase equipment. ISA 240 could use this rationalisation under AM, as well as FFR.

In six of the eight AR cases where the attitude towards fraud reported was present in the auditing standard, the fraudsters used a *"disregard for internal controls over misappropriation of assets or failing to correct known internal control" (*ISA 240) as a rationalisation for committing fraud (see Table 6.5). These cases involved the employee knowingly targeting poor controls, for example by authorising an overdraft or expense claims or overriding the physical ownership of assets. In one reported case the fraudster showed *"behaviour indicating displeasure or dissatisfaction with the entity or its treatment of the employee"* (ISA 240). He felt overworked and undercompensated for the extra workload. In relation to the rationalisation of *"changes in behaviour or lifestyle that may indicate assets have been misappropriated"* (ISA 240). In the fraud case involving FÁS the following was reported:

> *"The court heard (the fraudster), who was on a salary of €50,000 a year, was living a lifestyle that could not have been supported by his salary. He spent the money on foreign trips, home improvements and driving a better car. There is no money left, the court heard and FÁS remains out of pocket" (www.rte.ie 30/03/11).*

Table 6.5: Attitude towards Fraud present in ISA 240

Element of the Fraud Triangle	Red Flags as presented in ISA 240	Companies Involved
Attitudes/Rationalisation (FFR)	An interest by management in employing inappropriate means to minimise reported earnings for tax-motivated reasons	AJH Construction, Begley Brothers Limited, Bovale Development, Loganroy Consultants Limited, Professional Door Staff Limited
	The owner-manager makes no distinction between personal and business transactions	AJH Construction, Bovale Development, Charterhouse Mortgage Centre (AM)
Attitudes/Rationalisation (AM)	Disregard for internal controls over misappropriation of assets or failing to correct known internal controls	Bank of Ireland (1),Bank of Ireland (2), Charterhouse Mortgage Centre Limited, , Dept. of Social and Family Affairs (2), Revenue Commissioners, Vodafone
	Behaviour indicating displeasure or dissatisfaction with the entity or its treatment of the employee	Department of Social and Family Affairs (1)
	Changes in behaviour or lifestyle that may indicate assets have been misappropriated	FAS

There were six AM cases where the attitude towards fraud was not present in ISA 240. This study classifies the attitude towards fraud in these six cases into two categories not included in the auditing standard; sense of entitlement and no apparent regard for the crime committed by showing no remorse (see Table 6.6 below).

In the Dáil Eireann case where a senator falsely claimed phone expenses, a sense of entitlement was reported.

> *"This is not a case of a simple mistake or indeed overstretching boundaries," the judge said. "Politicians are not expected to be superhuman; they are entitled to get it wrong. But politicians are not expected to cut corners and rely on entitlement for explaining misbehaviour or indeed criminal acts." (Irish Times 28/07/14)*

This sense of entitlement was not present in ISA 240.

Table 6.6: Attitude towards Fraud <u>not present</u> in ISA 240

Element of the Theory of Planned Behaviour	Examples NOT present in ISA 240	Companies Involved
Attitude towards fraud	Sense of Entitlement	Dáil Eireann
	No apparent regard for crime committed	Bank of Ireland (2), Coca Cola/Robert Roberts, European Commission, Mayo County Council, Sunmount Services

In five AM cases, the fraudster appeared to have no regard for the crime committed. In one case the fraudster continued to defraud the organisation even after the fraud had been initially discovered and in the other case the fraudster apologised for the crime but he made little attempt to pay back the money owed and attended the court hearing in a new car. In the third case, the agents felt that the fraud would not hurt the companies as they were large companies, even though in this case the losses severely negatively affected one of the companies defrauded and it had to cease trading. In two cases the fraudsters appeared to diminish the seriousness of the fraud. In one case the employee was discovered to be falsely claiming travel expenses but felt that *"bigger fish had gotten away with greater crimes"* (Irish Times 26/11/11). In the other case the fraudster felt the fraud was facilitated by a gap in procedure and therefore only warranted a reprimand.

The examples given in ISA 240 were not sufficient to cover all of the attitudes towards fraud reported in the AM cases. The findings of this research advise that the examples given in ISA 240 should be extended to include a sense of entitlement and no apparent regard for the crime. These attitude/rationalisation show the fraudsters to neither understand nor care for the implications of the frauds on others, and these types of attitudes should be red-flags to auditors if they discover such attitudes on an audit.

6.5.2 Subjective Norms in ISA 240

Subjective norms are where the belief that those who are important to you, including colleagues, would approve or disapprove of the fraud behaviour. The two cases where subjective norms were identified involved the fraudsters alluding to others (who were not convicted) as complicit in the fraud. These are shown in Table 6.7.This is not present in ISA 240.

Table 6.7: Subjective Norms not present in ISA 240

Element of the Theory of Planned Behaviour	Examples NOT present in ISA 240	Companies Involved
Subjective norms	Complicity in undertaking the fraud	Whelan Group, D Floyd

In the FFR case where fraudulent accounts receivable details were used to get invoice discounting, the judge felt that the fraudster could not have acted alone and more senior members of staff must have been involved. However, no other convictions were made in this case. In another case the fraudster believed he was the *"fall guy for more sinister elements who benefitted from the [fraudulent] scheme"* (Irish Times 25/05/12). These subjective norms were not present in ISA 240 and the researcher advises that the examples given in the standard should be extended to include them. Where there is complicity in the undertaking of a fraud, this makes it more difficult for an auditor to discover, as there is more than one person involved in the cover up of the crime.

6.5.3 Perceived Behavioural Controls in ISA 240

Perceived behaviour control relates to the experience of a person and anticipation of impediments and obstacles based on their experience, competence and any expected obstacles they might face. Perceived behavioural controls generally relate to influence over the person by another. Two cases had a perceived behavioural control reported in the press and this was <u>not present</u> in ISA 240 (see Table 6.8).

Table 6.8: Perceived Behavioural Controls <u>not present</u> in ISA 240

Element of the Theory of Planned Behaviour	**Examples NOT present in ISA 240**	**Companies Involved**
Perceived behavioural controls	Weak Personality/easily lead	Bank of Ireland (3)
	Lack of business knowledge	Professional Door Staff Limited

In one case a bank employee tried to take sick leave rather than carry out the fraud, however he was a "*very weak individual who is easily lead*" (Irish Times 17/3/09) and he let himself be pressurised by criminal elements. Both the attitudes towards fraud and the perceived behaviour control elements indicate examples where the fraud may have been a deliberate act from the start and the character of the employee is in question. In the final case, the directors claimed that their lack of business knowledge, and therefore an inability to keep proper books and records, was the reason for the fraud. Normally it is assumed that the fraud begins accidentally however the character of the employee and their excusing fraudulent behaviour should also be included in ISA 240.

6.5.4 Moral Obligations in ISA 240

Moral obligation is where behaviour is considered ethical and moral by the fraudsters in the circumstance, for example fraudsters can lessen their feeling of guilt if they believe their actions are helping others. The eight instances of moral obligation identified in this study, as divided in this study into three categories, were not present in any of the examples given by ISA 240 (see Table 6.9 below).

Table 6.9: Moral Obligations not present in ISA 240

Element of the Theory of Planned Behaviour	**Examples NOT present in ISA 240**	**Companies Involved**
Moral obligation	Action for the good of the company/department	AJH Construction, Begley Brothers Limited, Bovale Development, Galway County Council,
	Charitable actions : for the good of others	Bank of Ireland (2), EBS/Musgrave/C&C, Revenue Commissioners
	To pay back previous frauds	Celerity Fluid Systems,

In eight reported cases the fraudsters manipulated the system and committed a fraud as they believed the action was for the good of their department, their company or of others. There were four cases of action for the good of the company/department where the directors felt they were performing the taxation fraud for the benefit of the company and not for themselves. In one case all of the money in the VAT fraud was invested back into the business. In the fourth case a councillor, who got council staff to work on his own property, rationalised the behaviour by stating it was to maintain the council's budget in future years. In three cases the fraudster undertook the fraud for the good of others. In one such case the fraudster stated that she was not even aware that she was acting illegally when she gave extra tax credits to friends. In another case the fraudster owned her own company, which was failing and she did not wish to leave her staff go. In another case the fraudster wanted to give one friend an increase in their tax allowances and another friend an overdraft and in another the fraudster didn't want her own staff to lose their jobs. In the final fraud case, the fraudster used the proceeds of a fraud to repay another employer who she had previously defrauded. Undertaking a fraud for the benefit of the company or undertaking fraud as a charitable act or carrying out a fraud to pay back others were not present in ISA 240.

There are no examples of moral obligation present in ISA 240. The auditing standard needs to be more comprehensive and expanded to include examples where the fraud is carried out to help the organisation and others or to pay back for previous frauds committed as determined from this research. When a fraudster believes that they are undertaking a fraud for the benefit of the company or of others then it will be more difficult to convince the fraudster of the act undertaken as being wrong.

6.6 Conclusion

This chapter compared the content of the press reports of occupational fraud in Ireland from 2002 to 2013 to the examples of red-flags presented in ISA 240. It found although the "opportunities" element of fraud is adequately covered in ISA 240 at present, the "pressures" and "attitude/rationalisation" elements are not. Five additions to incentive/pressure in the auditing standard were recommended based on the findings of the current study. These are: a lavish lifestyle, pressure from criminals, greed, depression and concern for others.

The findings suggested that the elements of the TPB framework should be used to expand the examples given for the attitude/rationalisation element. Under "attitude towards fraud" it is recommended that examples of sense of entitlement and no apparent regard for the crime committed be added. Under "subjective norms," it recommended that an example where the fraudster considers that others would approve of the fraud should be included in the auditing standard. The perceived behavioural control of a weak personality should also be included in the auditing standard. Moral obligations, where the fraudster considers the fraud to be carried out to help the organisation or others or to repay previous frauds, should also be included as an example in the auditing standard.

If these suggestions are included in the auditing standards, the ability of the auditing standards to detect extant Irish occupational fraud could be significantly improved. The awareness of these examples to auditing professionals and the management of organisations could encourage them to notice attitudes and traits in employees which may suggest fraudulent activity. The more cases are taken against occupational fraudsters, the more incentive/pressure, opportunities and attitude/rationalisation of fraudsters will be revealed.

Chapter 7 Conclusions of this Research

7.1 Introduction

Cohen *et al.* (2010) used a FT/TPB framework, combining the Fraud Triangle (FT) and the Theory of Planned Behaviour (TPB), to examine the unethical behaviour of managers from 1992-2005 in thirty-nine reported fraud cases in the US. They suggested that SAS 99[6] the auditing standard in the US, could be strengthened by the inclusion of additional examples of fraud risk factors identified from their research. They called for similar research in other jurisdictions. This study is an answer to this calling, to substantiate the findings of Cohen *et al.* (2010) in an Irish context, and also to examine why conviction rates are low in Ireland.

The objective of this study is:

> *Is there sufficient guidance to detect, and obtain a conviction for, occupational fraud in Ireland?*

This objective will be achieved by answering the following questions in this chapter:

1. Is the auditing standard (ISA 240) sufficient to capture the breadth of extant occupational fraud in Ireland?
2. Why is it difficult to bring a conviction for fraud in Ireland?

To answer these questions, the researcher used content analysis of the press articles reporting occupational fraud in the twelve year period from January 2002 and December 2013. This period was used as it is followed the introduction of the Criminal Justice (Theft and Fraud Offences) Act 2001. This chapter closes with a discussion of the limitation of this research and recommendations for future research.

[6] As previously stated the US stated the equivalent of ISA 240 is SAS 99 “Consideration of Fraud in a Financial Statement Audit.” There are only minor differences in the text of the two auditing standards.

7.2 Sufficiency of ISA 240

This section analyses the content of the press reports and the auditing standard to answer the first research question posed.

Question 1: **Is the auditing standard (ISA 240) sufficient to capture the breadth of extant occupational fraud in Ireland?**

The majority of the reported incidents of fraud in Ireland were relatable to the FT/TPB framework. Of the thirty-five cases examined, thirty-one provided at least one "*incentive/pressure"* on the fraudster that could have led to the committing of the fraud in the press reports. It should be noted that the press reports were made by court reporters and the lack of reporting of an incentive/pressure does not mean that they did not exist, just that perhaps this aspect was not worthy of reporting. The "*opportunity"* to commit fraud was in the press reports of all thirty-five cases in this study. As noted in the literature review, opportunities for fraud occur when there is a lack of internal control. This is the element of the fraud triangle over which the company should have control. Twenty-four of the thirty-five cases studied had at least one "*attitude/rationalisation"* included in the press report. A number of the twenty-four cases reported multiple rationalisations that lead to thirty-one instances of rationalisations in the study. Using the Theory of Planned Behaviour (TPB) the "*attitude/rationalisation"* element is divided into four categories; "*attitude towards fraud", "subjective norms", "perceived behavioural controls"* and "*moral obligation*", provides more insight into the rationalisation of fraud. In this study there were nineteen instances of "*attitude towards fraud*", two of "*subjective norms*", two of "*perceived behavioural controls*" and eight instances of "*moral obligations*." Three potential reasons for the non-recording of *attitude/rationalisation* in the press reports could be that the press reporter simply did not think it newsworthy, it is internal to the fraudster so it may not have been discussed in the court case or if the person were a serial fraudster, he/she would require no rationalisation to undertake the fraudulent action.

ISA 240 “The Auditors responsibilities relating to fraud in an audit of financial statements” is the auditing standard used by auditors in Ireland to get guidance on the detection of fraud. It suggests red flags, by way of examples, that auditors may face in a broad range of situations, to fulfil their duty in an audit of financial statements.

When comparing the elements of the FT/TPB framework reported in the press reports of the Irish occupational fraud cases to the examples given in ISA 240, it was found that some of the elements were not present in the auditing standard. This confirms in an Irish context the findings of Cohen *et al.* (2010) that the existing auditing standard needs to be expanded. Of the thirty-five Irish cases examined only seventeen reported an *incentive/pressure* which is presented in ISA 240, all thirty-five recorded *opportunities* were present in ISA 240, and only thirteen of twenty-four cases which recorded *attitude/rationalisation* could be matched to the examples given in ISA 240. The elements that were present in the auditing standard are summarised in Appendix B to this study. It should be noted that the elements of some of the cases could be matched to multiple examples presented in ISA 240. However, more interestingly for this study, it is apparent that some of the elements of the Irish cases were not present in the auditing standard. Table 7.1 presents the additional examples that should be added to the existing auditing standard to improve it adequacy. As not all instances of fraud are captured in the red-flags as presented in the ISA 240, this also confirms the findings of Krambia-Kardis, 2002 Bierstaker *et al.*, 2006 and Glodstein, 2009, who warn against over reliance on red-flags, which could lead to the ignoring of other indicators of fraud.

Table 7.1 Recommended additions to ISA 240

Element of the FT/TPB	Not present in ISA 240
Incentives/pressurea	1. Lavish lifestyle (PIC) 2. Greed 3. Pressure from criminals 4. Depression 5. Concern for others (PIC) 6. Paying back others previously defrauded
Attitudes/rationalisations (Reasons given by the fraudsters)	**Attitude towards Fraud** 1. Sense of entitlement 2. No apparent regards for crime concerned to make amends **Subjective Norms** 3. Complicity in undertaking the fraud (PIC) **Perceived Behavioural Controls** 4. Weak personality/easily lead (PIC) 5. Lack of business knowledge **Moral Obligation** 6. Action for the good of the company/department 7. Charitable actions : for the good of others (PIC) 8. To pay back previous frauds

Key – PIC – Present in the research compiled by Cohen et al. (2010)

7.2.1 Additional Incentives/Pressures

This study confirms that two further examples of the *incentives/ pressures* that Cohen *et al.* (2010) suggested should be added to the US auditing standard, could also be added to ISA 240. The first is “maintenance of a high standard of living.” This was present in nine of the thirty-six Irish fraud cases. In ISA 240 the risk factor “personal financial obligations” is used, which suggests the fraudster is motivated to cover financial debts or losses incurred. “Maintenance of a high standard of living” would not necessarily be included in this, as it is a situation where the fraudsters make a choice to live beyond their means. These results confirm the results of Paternoster and Mazerolle (1994) and Broidy (2001) A further *incentive/pressure* noted by Cohen *et al.* (2010), and confirmed by this study, is “charitable causes/helping others”. This was reported in three of the Irish cases where fraud was committed to help others, sometimes without the knowledge of the other person.

As well as confirming the need to add these two *incentive/pressure*, this study found three further *incentive/pressure,* which were not present in ISA 240 (or in Cohen *et al.*’s (2010) findings). They are “greed,” “pressure from criminals” and “depression.” The FT and ISA 240 are predicated on the belief that fraud starts by accident and it then become habitual. However, in two of the Irish cases examined the only motivating factor reported for fraudsters committing fraud was greed. In another case a fraudster was put under pressure from criminals to carry out fraud against the company in which he worked. In two cases, the fraudsters’ depression was the reason given for committing the fraud. Accordingly, as well as Cohen *et al.*’s (2010) two additions, these three additions would improve how representative the auditing standard is of the extant *incentive/pressure* in an Irish context.

Three additional *incentive/pressure* identified by Cohen *et al.* (2010), namely “reputation at stake,” “influence of managers on others” and “prize given” were not found in any of the Irish cases. All of the cases in Cohen *et al.*’s (2010) study involved Fraudulent Financial Reporting (FFR) in large listed organisations where stock options and managerial bonuses were of concern. Whereas in this study of thirty-five Irish occupational fraud cases, only six involved FFR and it was mainly in owner-managed or small to medium enterprises (SMEs). The issue of share price was therefore irrelevant in the Irish cases. Even though these additions are not found in the extant Irish fraud cases, they should be taken into consideration if the auditing standard is to be reviewed.

7.2.2 Opportunity

Similar to the findings of Cohen *et al.* (2010), all opportunities reported in this study were present in ISA 240. As stated earlier, the cases examined by Cohen *et al.* (2010) were large quoted companies and the frauds were undertaken by senior management. The opportunities identified by Cohen *et al.* (2010), which were not seen in the cases in this study, included significant related party transactions, an ability to dominate industry, highly complex transactions and ineffective boards of management and audit committees. This study only shares one of the opportunities found in Cohen *et al.*'s (2010) study, that of *"domination of management by a single person or a small group without compensating controls"* (ISA 240). This was the opportunity present in all the FFR cases of this study. The opportunities in this study found in the AM cases were *"large amounts of cash", "inadequate internal controls", "inadequate oversight of senior management of expenditure", "inadequate segregation of duties", "inadequate system of authorisation and approval"* and *"inadequate management understanding of information technology*" (ISA240). The auditing standard has adequately covered all of the opportunities reported in the Irish cases in this study.

7.2.3 Additional Attitudes/Rationalisations

Cohen *et al.* (2010) used the TPB to expand the *attitude/rationalisation* element of fraud cases to include attitude towards fraud, subjective norms, perceived behaviour controls and moral obligations to identify elements not present in the auditing standard. A similar analysis was conducted as part of the study.

Under *"attitude towards fraud*," Cohen *et al.* (2010) identified two rationalisations of fraud not present in the US auditing standard. Those were "maintaining a high living standard" and "reputation at stake." "Reputation at stake" was not found in the Irish cases. "Maintaining a high living standard" was found, but the researcher felt it was more appropriate to include this as an *incentive/pressure*, rather than being seen as an *attitude towards fraud*. This study identifies a further two attitudes towards fraud as suggested additions to the auditing standard: a sense of entitlement and no apparent regard for crime committed. In the case of a politician convicted of submitting fraudulent expenses, the judge felt the fraudster conveyed a sense of entitlement by assuming that just because these expenses were sanctioned, he should get them. No apparent regard for the crime committed was reported in five of the cases. In one of these cases the fraudster felt the companies were large and could afford the loss, and another fraudster continued committing fraud even after it was discovered. One of the fraudsters turned up to court in a brand new car having made no attempt at restitution, one of the fraudsters felt that others who had carried out more "serious" crimes had gone unpunished and finally one of the fraudsters believed that his crime did not warrant much punishment.

Under "*subjective norms*" Cohen *et al.* (2010) identified "influence of management" and "complicity" as two suggested additions to the US auditing standard. The "influence of managers" was not found in the current study, however the requirement of an addition of an example of "complicity" was confirmed in six of the Irish cases. In four reported cases more than one fraudster was convicted. In the other two cases an accomplice was alluded to, but only one fraudster was convicted.

Under "*perceived behavioural controls*" Cohen *et al.* (2010) suggested two additions to the auditing standard. These were "receiving a prize or superlative" and "the personality of the manager." There were no extant Irish cases of receiving a prize or superlatives in the cases examined in the current study. This study does suggest however that "personality" should be added to the auditing standard, especially if it was weak and the person could be easily influenced. In one case the judge stated that the fraudster had a weak personality based on the fact that he allowed himself to be influenced by criminals. This study also suggested the inclusion of “no business knowledge” as an addition to the auditing standard. This was present in a case where the directors used their lack of business knowledge as a rationale for carrying out the fraud.

Under “*moral obligation*” Cohen *et al.* (2010) identified “actions for the good of the company” as a rationalisation which was in the US cases but not present in the relevant auditing standard. This study confirmed that this was also used as a rationalisation in four of the study cases where fraud was carried out for the good of the company. In one case, the fraudster ploughed the proceeds of the fraud back into the business. In two cases the tax (excise duty and PAYE/PRSI) was thought to be unjust. In the final case the fraudster suggested that the council would get a smaller budget next year if the fraud was not committed. Cohen *et al.* (2010) also identified “charitable causes” as a rationalisation not present in the auditing standards. This was identified in three Irish cases in this study, where the fraud did not benefit the fraudster, but benefitted family and friends by way of tax allowances and authorising an overdraft. This was not present in ISA 240. As well as recommending the addition of these two as examples in ISA 240, an additional rationalisation of moral obligations was found in this study, where the fraudster rationalised the fraud as the money was used to repay a previous fraud.

The auditing standard already provides many red flags for an auditor to consider. As not all of the elements of these cases are covered by the examples given in the auditing standard, the findings of this study suggest that the standard should be expanded to provide a more comprehensive list of examples. It suggests the addition of maintenance of lavish lifestyles, charitable causes, greed, pressure from criminals and depression in the incentives for committing fraud. It suggests the addition of a sense of entitlement, no apparent regard for crime, complicity, weak personality, no business knowledge, actions for the good of the company, charitable causes and repayment of previous frauds as examples of rationalisation of fraud (see Appendix C). Some of these were confirmation of the findings of Cohen *et al.* (2010) and others are further examples identified by the researcher in this study. Undeniably, it would be very difficult to provide an exhaustive list of all circumstances under which fraud is undertaken, but by using the FT/TPB framework a number of new examples are suggested here that cover the extant Irish cases over the twelve year study period and since the new laws were introduced in 2001.

7.3 Difficulties in Bringing a Conviction for Fraud in Ireland

This section used the analysis of the extant press report to answer the second research question posed.

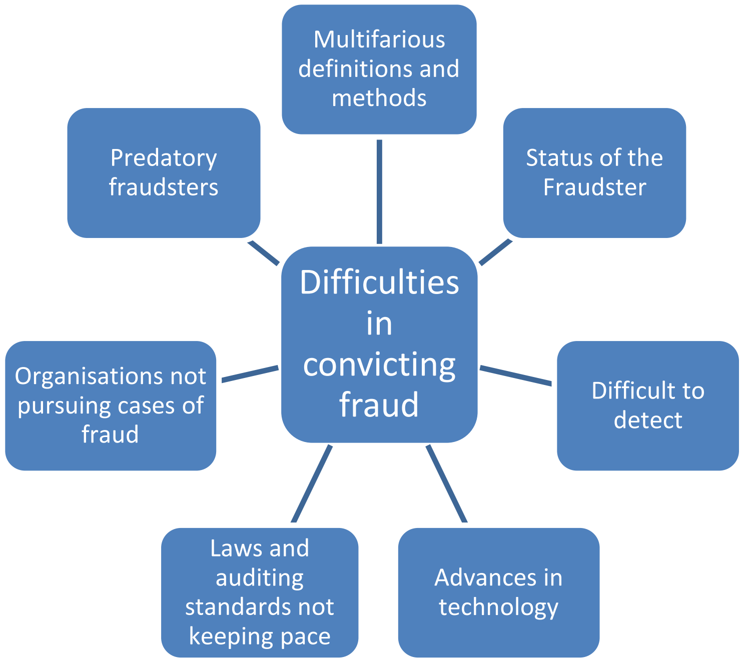
Question 2: Why is it difficult to bring a conviction for fraud in Ireland?

The extant literature discussed a number of difficulties in identifying and convicting fraud cases as depicted in Figure 7.1. The main reasons identified in the literature review for these difficulties were; multifarious definitions of fraud; status of the fraudster; difficulty to detect; advances in technology, law and auditing standards not keeping pace, organisations not pursuing cases of fraud and not all frauds are accidental.

This study confirms the difficulty recounted in extant literature of the multifarious definitions and methods of fraud. This study using the auditing standard's categorisation of occupational fraud into Fraudulent Financial Reporting (FFR) and Asset Misappropriation (AM), divided the thirty-five cases in this study into six FFR and twenty-nine AM cases. Even though only six of the thirty-five cases studied were FFR, the total value of these cases was 66% of the value of the frauds committed. These findings support the findings of Beasley *et al.* (1999) who found the value of FFR greatly exceeded that of AR.

There were fourteen methods of fraudulent activity, four FFR, and ten AM. These methods ranged from fraudulent taxation return, false invoicing, false expense and overtime claim to forging ownership documentation. The number of different methods used to defraud in the cases examined illustrates the multifarious definitions and methods of fraud. This study only looked at occupational fraud so frauds such as identity theft, card skimming and false representation were not examined.

Figure 7.1 Difficulties in convicting fraud in the current study



The proposition in the extant literature that a fraudster is likely to be of high status in the company and to be in top management is borne out in this research. Because of their seniority in the organisation, others in the company may not report suspected fraud for fear of retribution. All the FFR cases in the study were carried out by company directors. The majority of the AR cases were also carried out by senior management. The vast majority of the Irish cases involved small to medium sized owner-managed businesses and would not have audit committees as prescribed by best corporate governance practice. The one on top is very important in these organisations. If it appears that management are partaking in, or lenient on fraudulent activity, then the other employees may feel that fraudulent activity is acceptable.

The extant literature emphasised that the secretive nature of fraud often makes it difficult to detect. Even if a company knows that funds are gone, it is often difficult to detect and quantify the value of the fraud. In this study, the method of detecting fraud was mentioned in seventeen press reports, see table 7.1 below.

Table 7.2: Method of fraud detection noted in Irish fraud cases

Detection Method	Value of Fraud €	Number of Cases
Not Reported	14,984,615	18
Internal controls	3,252,385	10
Suppliers complaint	600,000	1
Whistle-blower	224,000	2
Tax Audit (threat)	135,000	1
IT System	40,000	1
Reporter	30,000	1
External Audit	17,000	1
Grand Total	**€19,283,000**	**35**

An internal control was the method of detection recorded in ten of the cases. In two frauds uncovered by internal controls new personnel in a department noticed anomalies and investigated the source. In another case, the fraudster was receiving exceptionally high levels of overtime. In another case, the fraud was detected when a manager noticed that the takings for the night for one section of the business consisted of just vouchers with no cash. In another case, the management was concerned that the revenue from a section had fallen and looked for it to be investigated by an external auditor. In one case, a supplier was no longer getting contracts and wanted an explanation. In two cases a whistle-blower made a complaint, one came as a tip off from a previous co-worker and the other was a man who found cheques with the company name in his daughter-in-law’s house. In one case, a notice of a tax audit prompted the fraudster to confess. In the case of an employee who gave his girlfriend an unauthorised overdraft, the company’s IT system flagged this as an unusual transaction. A freedom of information (FOI) request by a reporter caused the fraud to be uncovered in the case of the councillor who had council employees carry out work on his property. In only one case, where the fraudster stole a cheque book, was the fraud uncovered by an external auditor. In the cases of FFR, the fraud was undertaken by the directors/owners of the businesses who were in a position to override the internal controls of the organisations. Although it was not reported, it is most likely that these were uncovered by a Revenue Commissioner investigation. ISA 240 reiterates that it is the directors of a company that are primarily responsible for the safeguarding of assets of the company and that the auditor only has secondary responsibility and it is not expected that an audit would detect fraud.

The methods used for undertaking the frauds are included in tables 5.2 and 5.3. The specific use of technology was not recorded in the press reports of the cases but technology was used in the cases of the unauthorised overdraft limit given to a girlfriend, the use of a supervisors' password to authorise payments and unauthorised transfers to the fraudsters accounts. The subject of this research, occupational fraud cases, would not cover any outside cyber-attacks. The use of technology should be an important part of efforts to detect and protect from fraud.

Difficulties in securing a conviction for fraud could also be due to the fact that the law and auditing standards are not keeping pace with advances in methodologies of committing fraud. The law in relation to fraud in Ireland has not been amended since 2001 and ISA 240 has been in place since 2004. The auditing standards should be reviewed to include the elements of the TPB framework and include the examples of fraudulent behaviour noted in the Irish cases studied, that are not included in ISA 240.

Eircom is the only Irish Public Limited Company (PLC) in which an occupational fraud case was identified for this study. As noted in Chapter four, Greencore PLC did prosecute a case of occupational fraud, however this was pursued in Scotland so this was not included in this study. The Association of Certified Fraud Examiners (2014) noted the reasons for non-pursuit of fraudsters vary from fear of bad publicity, internal punishment deemed sufficient, private settlement reached with the fraudster and criminal action deemed too costly to pursue.

The prosecution of fraud cases appears to be inadequate. There were two press reports of cases not included in this study where civil cases had been taken against fraudsters, instead of criminal cases, as the time taken by the Gardaí to bring a criminal case was deemed too long. These cases were not included in the study as the outcome of the cases was not publically recorded. It is difficult to know if these are the only cases. The Anglo Irish Bank collapsed in 2007 and the first attempted prosecutions did not take place until 2014. The Gardaí and the Director of Corporate Enforcement have reported that they do not have the technical skills or the resources to investigate fraud (Brady, 2014). In two of the cases examined the fraud was undertaken by serial fraudsters who were only pursued after they had defrauded a number of employers. Perhaps if organisations took a zero tolerance policy and pursued prosecutions the cost of fraud might reduce.

The capability of the fraudsters is another difficulty encountered when looking for a fraud conviction. Sutherland (1940) and Cressey (1950) assumed that the fraud begins when the fraudster has an un-shareable financial obligation. In the original FT it is expected that fraud is carried out in the first instance by accident with more recent research exploring the concept of the predatory fraudster. Predatory fraudsters only need opportunity to commit a fraud (Walters and Geyer, 2004; Wolfe and Hernanson, 2004, Perri, 2004; Dorminey *et al.,* 2010; Kransher *et al.*, 2011). The researcher believes that there was a serial fraudster, who perpetrated fraud on a number of organisations, in two of the cases in this study. One of the fraudsters committed fraud against two organisations and the other targeted three employers. There were also a number of cases in the study where fraud was committed through collusion. Most of the fraud theories and the auditing standards are based on a fraudster working alone and the fraud had not been started deliberately. The auditing standard should be expanded to include instances of the predatory fraudster and of collusion.

The inadequacy of the auditing standard is not the only reason why the number of convictions for occupational fraud is low. This study finds the multifarious methods of committing fraud, the status of the fraudster, difficulties in detecting fraud, advances in technology, law not keeping pace, reluctance by organisations to report fraud, and that predatory fraudsters target organisations and therefore not all frauds are accidental, as factors keeping the conviction rate for occupational fraud so low in Ireland.

7.4 Limitations of this Research

This exploratory descriptive research, while narrowing the existing gap in the literature, has limitations. In fulfilment of the requirements for a Masters in Business (Research), this dissertation was the first major piece of academic research undertaken by the researcher. Along with experience, time was another limiting factor for the researcher. This resulted in the time framework stopping in December 2013. This research was undertaken by one person, so unlike the Cohen *et al.* (2010) study, there was not another researcher verifying the coding of the categorisation of the fraudulent activities. However in Cohen *et al.* (2010) the second researcher did not find significant errors in the coding of the original researcher, so it is unlikely that this was a factor in the current study.

The research was undertaken using newspaper articles reporting on occupational fraud. Newspapers may wish to sensationalise fraud cases and create dramatic stories to boost circulation. However, the press articles were based on court proceedings and were based on facts and testimonials presented in the cases and judges' comments. In this study care was taken to focus on the facts of the case and ignore journalistic opinions. While the reports of the cases used are from court proceedings the elements of incentive/pressure and attitude/rationalisation were not included in all of the reports and the findings of the research could have been expanded had this information been available. The number of occupational fraud cases identified in the research was thirty-five, but it must be noted that the press may not have reported all cases of occupational fraud convicted in Ireland during the time researched.

7.5 Future Research

This research answered the call of Cohen *et al.* (2010) to extend the scope of their study to investigate cases of fraud using the FT/TPB framework in territories outside of the US. It confirmed the findings of their study that further examples of red flags should be added to the auditing standards, particularly through expansion of the attitudes/rationalisation element of the auditing standards to include attitude towards fraud, subjective norms, perceived behavioural controls and moral obligation. It would be interesting to compare these findings with other territories such as the UK or other European countries. In addition, a longitudinal study could be undertaken to examine the content of press reports of Irish fraud cases in ten years' time to determine if any new elements would be identified, perhaps relating to advances in technology and cybercrime.

None of the Irish occupational fraud cases identified in this research were of fraud in Irish PLC's. It would be interesting to investigate the reason for this. The small number of cases identified in the research would suggest that there are only limited amounts of fraud cases pursued through the legal system. The reason for this perceived lack of prosecution could also be investigated.

Another area for further research could be the methods of discovering fraud as there was only limited reporting of these in the press reports. As the most significant suggested additions to the auditing standard relate to the attitudes/rationalisation section of the audit triangle further research could be undertaken to assess the auditor's view of the usefulness of the FT/TPB framework.

Another area for further research could be the lack of resources in the Gardai and the office of the Director of Corporate Enforcement and how the lack of given resources affect the number of fraud cases prosecuted in Ireland.

7.6 Conclusion

Previous research called for more research into occupational fraud. This study attempts to answer this calling by describing and analysing the reported cases of occupational fraud in Ireland from 2002 to 2013. The results of this dissertation confirm the findings of Cohen *et al.* (2010) that the auditing standards could be strengthened by using the elements of the FT/TPB framework. In doing this, ISA 240 could be expanded to include more examples of fraudulent activity. It confirms that more examples of incentives and attitude toward the fraud, subjective norms, perceived behavioural controls and moral obligation should be included in the auditing standard.

This study also explored why it is difficult to bring a conviction for occupational fraud in Ireland. The study found the multifarious methods of committing fraud, the status of the fraudster, difficulties in detecting fraud, advances in technology, law not keeping pace, reluctance by organisations to report fraud, and the fact that not all frauds are accidental, are factors in keeping the conviction rate for occupational fraud so low in Ireland.

It is important that the professional standards and the resources of those charged with prosecuting fraud are strengthened to give further insight into occupational fraud. The difficulties in convicting fraud should also be considered by those tasked with safeguarding organisations assets. This should lead to a reduction in the effects of occupational fraud in organisations and in wider society.

APPENDICES

Appendix A: ISA 240 Examples of Fraud[7]

Risk factors relating to misstatements from **Fraudulent Financial Reporting**	
Incentives/ pressures	Financial stability or profitability is threatened by economic, industry, or entity operating conditions, such as (or as indicated by):
	• High degree of competition or market saturation, accompanied by declining margins
	• High vulnerability to rapid changes, such as changes in technology, product obsolescence, or interest rates
	• Significant declines in customer demand and increasing business failures in either the industry or overall economy
	• Operating losses making the threat of bankruptcy, foreclosure, or hostile takeover imminent
	• **Recurring negative cash flows from operations** or an inability to generate cash flow from operations while reporting earnings and earnings growth
	• Rapid growth or unusual profitability especially compared to that of other companies in the same industry
	• New accounting, statutory, or regulatory requirements
	Excessive pressure exists for management to meet the requirements or expectations of third parties due to the following:
	• Profitability or trend level expectations of investment analysis, institutional investors, significant creditors, or other external parties (particularly expectations that are unduly aggressive or unrealistic), including expectations created by management in, for example, overly optimistic press releases or annual report messages
	• Need to obtain additional debt or equity financing to stay competitive – including financing or major

[7] Highlighted areas are examples found in the research of convicted Irish Fraud (2002-2013)

Risk factors relating to misstatements from **Fraudulent Financial Reporting**	
Incentives/ Pressures	research and development or capital expenditure
	• Marginal ability to meet exchange listing requirements or debt repayments or other debt covenant requirements
	• Perceived or real adverse effects of reporting poor financial results on significant pending transactions, such as business combinations or contract awards
	Information available indicates that the personal financial situation of management or those charged with governance is threatened by the entity's financial performance arising from the following:
	• **Significant financial interest in the entity**
	• Significant portions of their compensation (for example, bonuses, stock options, and earn-out arrangements) being contingent upon achieving aggressive targets for stock price, operating results, financial position, or cash flows
	• Personal guarantees of debt of the entity
	There is excessive pressure on management or operating personnel to meet financial targets established by those charged with governance, including sales or profitability incentive goals
Opportunities	The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following:
	• Significant related-party transactions not in the ordinary course of business or with related entities not audited or audited by other firms
	• A strong financial presence or ability to dominate a certain industry sector that allows the entity to dictate terms or conditions to suppliers or customers that may result in inappropriate o non-arm's-length transactions
	• Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective, judgements or uncertainties that are difficult to corroborate
	• Significant, unusual, or highly complex transactions, especially those close to period end that pose difficult "substance over form" questions
	• Significant operations located or conducted across

Risk factors relating to misstatements from **Fraudulent Financial Reporting**	
Opportunities	international borders in jurisdictions where differing business environments and cultures exist
	• Use of business intermediaries for which there appears to be no clear business justifications
	• Significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification
	The monitoring of management is not effective as a result of the following:
	• **Domination of management by a single person or small group (in a non-owner managed business) without compensating controls**
	• Oversight by those charged with governance over the financial reporting process and internal control is not effective
	There is a complex or unstable organisational structure, as evidenced by the following
	• Difficulty in determining the organization or individuals that have controlling interest in the entity
	• Overly complex organisational structure involving unusual legal entities or managerial lines of authority
	• High turnover of senior management, legal counsel, or those charged with governance
	Internal control components are deficient as a result of the following:
	Inadequate monitoring of controls, including automated controls and controls over interim financial reporting (where external reporting is required)
	High turnover rates in employment of accounting, internal audit, or information technology standards that are not effective
	Accounting and information systems that are not effective, including situations involving significant deficiencies in internal control
Attitudes/ Rationalisations	• Communication, implementation, support, or enforcement of the entity's values or ethical standards by management, or the communication of inappropriate values or ethical standards, that are not effective
	• Nonfinancial management's excessive participation in or preoccupation with the selection of accounting

Risk factors relating to misstatements from **Fraudulent Financial Reporting**	
Attitudes/ Rationalisations	policies or the determination of significant estimates
	• Known history of violations of securities laws or other laws and regulations, or claims against the entity, its senior management, or those charged with governance alleging fraud or violations of laws and regulations
	• Excessive interest by management in maintaining or increasing the entity's stock price or earnings trend
	• The practice by management of committing to analysts, creditors, and other third parties to achieve aggressive or unrealistic forecasts
	• Management failing to remedy known significant deficiencies in internal control on a timely basis
	• **An interest by management in employing inappropriate means to minimise reported earnings for tax-motivated reasons**
	• Low morale among senior management
	• **The owner-manager makes no distinction between personal and business transactions**
	• Dispute between shareholders in a closely held entity
	• Recurring attempts by management to justify marginal or inappropriate accounting on the basis of materiality
	The relationship between management and the current or predecessor auditor is strained, as exhibited by the following: • Frequent disputes with the current or predecessor auditor on accounting, auditing, or reported matters • Unreasonable demands on the auditor, such as unrealistic time constraints regarding the completion of the audit or the issuance of the auditors' report • Restrictions in the auditor that inappropriately limit access to people of information or the ability to communicate effectively with those charged with governance • Domineering management behaviour in dealing with the auditor, especially involving attempts to influence the scope of the auditor's work or the selection or continuance of personnel assigned to or consulted on the audit engagement

Risk factors arising from misstatements arising from **<u>Misappropriation of Assets</u>**	
Incentives/ Pressures	**Personal financial obligations** may create pressure on management or employees with access to cash or other assets susceptible to theft to misappropriate those assets
	Adverse relationships between the entity and employees with access to cash or other assets susceptible to theft may motivate those employees to misappropriate those assets. For example, adverse relationships may be created by the following:
	• **Known or anticipated future employee layoffs**
	• Recent or anticipated changes to employee compensation or benefit plans
	• Promotions, compensation or other rewards inconsistent with expectations
Opportunities	Certain characteristics or circumstances may increase the susceptibility of assets to misappropriation. For example, opportunities to misappropriate assets increase when there are the following:
	• **Large amounts of cash on hand or processed**
	• Inventory items that are small in size, of high value or in high demand
	• Easily convertible assets, such as bearer bonds, diamonds or computer chips
	• Fixed assets which are small in size, marketable, or lacking observable identification of ownership
	Inadequate internal control over assets may increase the susceptibility of misappropriation of those assets. For example, misappropriation of assets may occur because there is the following:
	• **Inadequate segregation of duties or independent checks**
	• **Inadequate oversight of senior management expenditures, such as travel and other re-imbursements**
	• Inadequate management oversight of employees responsible for assets, for example, inadequate supervision or monitoring of remote locations
	• Inadequate job applicant screening of employees with access to assets

Risk factors arising from misstatements arising from **Misappropriation of Assets**	
	• **Inadequate record keeping with respect to assets**
	• **Inadequate system of authorisation and approval of transactions (for example, in purchasing)**
	• Inadequate physical safeguards over cash, investments, inventory or fixed assets
	• Lack of complete and timely reconciliations of assets
	• Lack of timely and appropriate documentation of transactions, for example merchandise returns
	• Lack of mandatory vacations for employees performing key control functions
	• **Inadequate management understanding of information technology, which enables information technology employees to perpetrate a misappropriation**
	• Inadequate access controls over automated records, including controls over and review of computer systems event logs
Attitude/ Rationalisation	• Disregard for the need for monitoring or reducing risks related to misappropriations of assets
	• **Disregard for internal control over misappropriation of assets by overriding existing controls or by failing to take appropriate remedial action on known deficiencies in internal control**
	• **Behaviour indicating displeasure or dissatisfaction with the entity or its treatment of the employee**
	• **Changes in behaviour or lifestyle that may indicate assets have been misappropriated**
	• Tolerance of petty theft

Appendix B Elements of Irish fraud cases included in ISA 240

Element of the FT/TPB	Elements from Irish fraud cases present in ISA 240
Incentives/ pressures	1. Significant financial interest in the entity (PIC) 2. Recurring negative cash flows from operations or an inability to generate cash flows from operations while reporting earnings and earnings growth 3. Personal financial obligations (PIC) 4. Adverse relationship between entity and employees with access to assets (layoffs)
Opportunities	1. Domination of management by a single person without compensating controls (PIC) 2. Large amounts of cash on hand or processed 3. Inadequate internal control over assets 4. Inadequate oversight of senior management expenditure, such as travel and other re-imbursements. 5. Inadequate segregation of duties and independent checks 6. Inadequate system of authorization and approval of transactions 7. Inadequate management understanding of information technology
Attitudes/ Rationalisations	1. An interest by management in employing inappropriate means to minimise reported earnings for tax-motivated reasons 2. The owner-manager makes no distinction between personal and business transactions (PIC) 3. Disregard for internal controls over misappropriation of assets or failing to correct known internal controls 4. Changes in behaviour or lifestyle that may indicate assets have been misappropriated 5. Behaviour indicating displeasure or dissatisfaction with the entity or its treatment of the employee

Key – PIC – Present in the research compiled by Cohen et al. (2010)

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