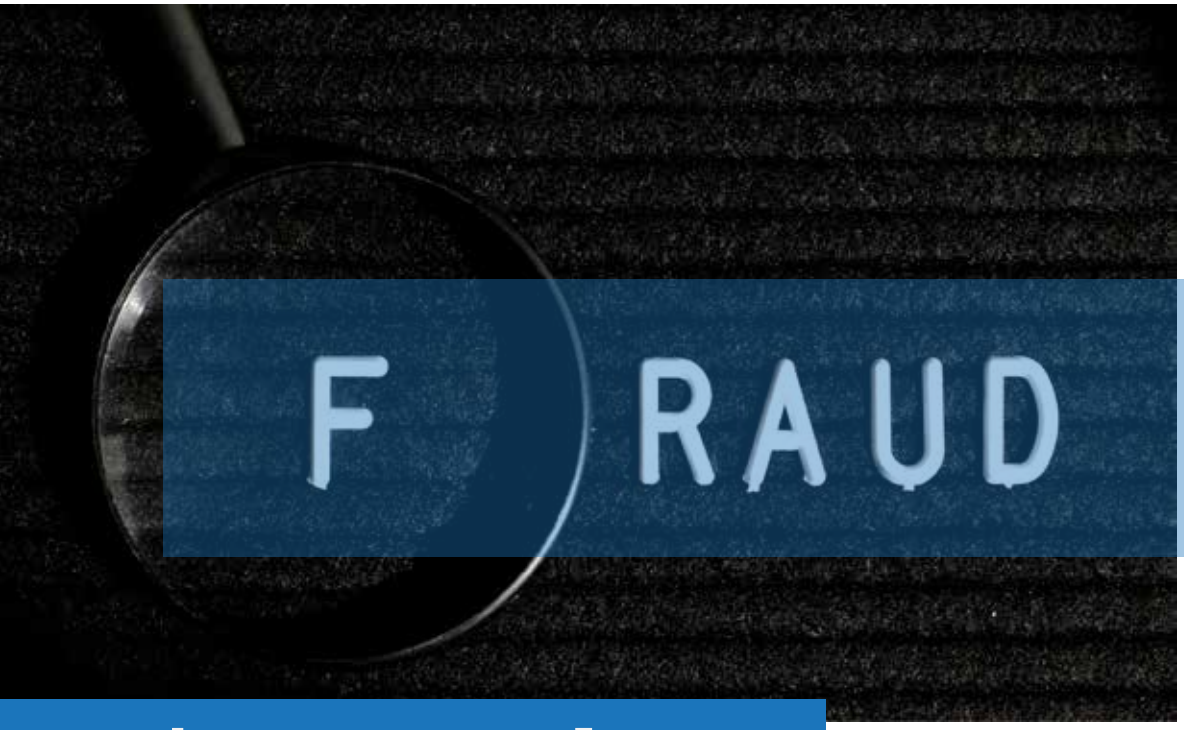

Why Fraud ?

Being into forensic audits for some time, I always wondered can there be some interrelationship between the Fraud Quadrangle and our great Indian mythology. The conjoint between the fraud theories and the mythology perimeters around people and their thought processes.

Donald R. Cressey, a well-known criminologist, developed the Fraud Triangle. Essentially, the three elements of the fraud triagle are: Opportunity, Pressure (also known as incentive or motivation), and Rationalisation (sometimes called justification or attitude). All three elements must be present for fraud to occur

The above theory was further expanded over fourth element, known as **"Capability".**

- The Fraud Diamond, a newer theory of fraud proposed by David T. Wolfe and Dana R. Hermanson, asserts that the fraudster's capability should also be taken into account. The fraudster, it is said, has the required traits (e.g., greed, dishonesty etc.) and abilities (e.g., knowledge of processes and controls) to actually commit the fraud. It can be argued,however, that traits are components of pressure and that abilities are opportunity fac-

- These proven theories sprout the various elements of fraud, affecting organizations either through financial losses or affect the repute. But what instigates the occurrence of fraud at first level is the question

- The above theories have unnerved the categories under which the fraud perpetrator falls. It is obvious that the existence of these factors results in exploiting the undue advantage, but not all will behave in the identical manner. There are quite a few underlying factors which supersede and force the thought process in the undesired direction. Certainly these converge to the four elements of frauds.

Morale and Tendency

There are various social and upbringing factors that tend a person to deceit an organization/ group or society at a large. Such people due to socio factors feel distressed and commit frauds at insignificant levels initially. If succeeded, their confidence is bragged, moving for a significant fraud. (Greed)

Goals dominance

Each individual is driven by definite goals whether be self-instigated or imposed. The techniques of handling such goals varies from person to person based on the ascendency of the goals. A goal dominance over balanced mind inclines towards finding unwarranted means to accomplish (Desire)

Prejudiced authority

At times the employee may be willing to be part of the unethical approaches the way he is persuaded and given authoritive position beyond his calibre. The lust of such position entails him to override the rationale thought and foresee the undue advantages. (Desire)

Lack of Perseverance:

People who have a strong sense of themselves as individuals are less likely to do unethical things. An individual's opinion about ability and self-expectations, about performance largely determines performance. If an individual lacks this self-ability there is a possible opening to fraud (Desire & Jealousy)

Lack of empathy

Antisocial tendencies affects the thought process for aggrieved to believe of being deprived/ cheated. This replicates in his thought which then converts into an act of fraud (Anger)

Egotism

Basically, the thinking is that 'I'm important and the rules just don't apply to me. The ego factors prevails over the rational mind to decide what is right. Such people tend to justify that their acts intend to make a difference without even fretting its impacts (Arrogance)

Disgruntled

People begrudge threats to their freedom, and they often manifest that resistance by flouting certain rules. Rules are designed to prevent unethical behaviour, but when they're seen as unjust or excessive they can provoke the opposite reaction. (Jealousy)

Ubiquitous mind

Sustained growth carries a principled and determined attitude that reflects through the actions of developments. They are more virtuous and do not destructively impact the business atmosphere. A precipitous and ubiquitous mind leans towards exponent without resounding the legitimacy to the mind (Jealousy)

Inability to reject wrongdoing

Employees most often do not show the courage to reject wrongdoing. Neither they oppose nor do they react on such unethical acts superiposed on them. The self-limitation ends in indirect partaking of the event. (Delusion)

Our mythology depicted these enemies in the form of different characters which are prevalent in todays' FRAUD environment too. The nature of these influencers is psycho-logical, as such cannot be assessed on carrots and stick models. This requires a deep dive into the minds of the people and framing the review mechanism wherein the collaborative effort between HR department and functional department throughout the various stages from joining to exit shall provide a definitive identification and mitigation plans can be set accordingly. Not only the policies but a sonorous assessment around these factors will help organizations prevent the occurrence of FRAUDS .

Measures to Mitigate

A Policies and Framework

1. Whistle blower policies should be formulated in detail and explained throughout the organization for its effectiveness

2. Organization should have a framework in capturing the wrongdoings at every level through whistle-blower procedures

3. Such policies and frameworks should elucidate the resultant exposures and consequences one shall face on account of the malpractices/ misappropriations

4. Policies should emphasize on the importance of ethical practices and transparent approaches.

5. Actions taken against malpractices should be communicated though HR department to respective levels basis its severity. This will not only act as a deterrent for malpractices but will also heighten confidence in the culture

B Key Result Assessment (KRA)

1. KRA should be defined considering the eco system around the activity of the person.

2. KRA should be defined on the basis of capacity and aptitude of the person.

3. KRA should be attainable but challenging to achieve .

4. KRA should be quantifiable/measurable and should provide a progressive approach on achievement. This will instigate the approach for accomplishment.

C Committees and Forums:

1. Vigilance committees should be established for not only addressing the whistle-blower escalations but also conduct an independent assessment over organization operation and report to the Board and Audit Committee.

2. Periodic Forums/ Meetings of HOD's should be conducted whereby the respective HOD's open up on the malpractices/ irregularities noticed. Such details should be captured for further evaluations

D Evaluations:

1. Formal Grit scaling program shall be designed considering the different functions/ operations for resourcefully evaluating the perseverance. The scaling should provide specific options to avoid the answers being ducked conveniently.

2. Organization could design trifling programmes wherein the individuals could be exposed to a sudden mock drill. These drills would put them in an unexpected situation and reviewer could collect the feedback/ reactions of these mock drills for evaluating the empathy.

3. Behavioural Tests shall be conducted for evaluating individuals approach viz;

- Extrovert v/s Introvert
- Learned v/s Haphazard
- Thoughtful v/s Abrupt
- Judging v/s Sensing

Therefore to summarize the walkthrough on these facets indicates that it is not just important to analyse the 'how' of frauds but also to analyse the 'why' of frauds and dissect various emotions which drive individuals in fraud.

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We place our values, standards and ethics very high, in every work we do !

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