

# International Fraud Awareness Week

Why People Commit Fraud,  
Red Flags, and How to Prevent Fraud

# Why do people commit fraud?

Dr. Donald Cressey was one of the first individuals to study how white-collar criminals differ from violent offenders. Part of Dr. Cressey's work on occupational fraud included the development of the Fraud Triangle.

According to this theory, three elements must be present for occupational fraud to occur:

1. Pressure
2. Opportunity
3. Rationalization

# Pressure

This is a non-shareable problem - typically financial in nature - that drives a person to commit fraud.

Examples of these types of pressures include a gambling or drug habit, personal debt or poor credit, a significant financial loss, or peer or family pressure to succeed. They might believe fraud is the only solution for a variety of reasons, such as shame, pride or a desire to prove oneself.

# Opportunity

This refers to the perceived ability to commit fraud.

An employee must perceive that they have the opportunity to execute their scheme successfully.

This opportunity could present itself as a lack in anti-fraud controls, like having no separation of duties, that they have discovered.

# Rationalization

Offenders use rationalization to justify or excuse their criminal behavior and to maintain a positive image of themselves.

People are often unwilling to view their behavior as bad or morally questionable.

To keep a positive self-image, offenders rationalize their fraudulent actions in a variety of ways. They might tell themselves that they're only "borrowing" the money and will repay it at the first chance they get, or they could believe they're underpaid for their work and therefore deserve extra compensation.

# What are behavioral red flags of fraud?

Fraud can be committed by anyone, making it important for all employees to be aware and observant of behavioral red flags that might indicate a potential fraudster.

However, it is important to note that sometimes these indicators also apply to honest people, so their presence alone does not mean that someone is committing fraud.

Based on ACFE research, here are the six most common behavioral red flags of fraud:

**1. Living beyond means**

Big spending is often an indicator of fraudulent behavior, especially if an employee's salary does not line up with their lifestyle.

**2. Financial difficulties**

Financial problems are often cited as a motivation by those who commit occupational fraud. Examples include high student loan debt, car loans, mortgages, taxes or high credit card debt.

**3. A close personal relationship with vendors or customers**

This might indicate a conflict of interest or collusion between an employee and a vendor or customer.

#### **4. Control issues or an unwillingness to share duties**

Fraudsters might fear that they will be caught if they share their job duties with another employee. They may not use their allotted time off, or they might come up with excuses to gatekeep information from their colleagues.

#### **5. Irritability, suspiciousness or defensiveness**

Fraudsters may act unusually paranoid or harsh with colleagues in order to project suspicion onto others or to discourage questions.

#### **6. “Wheeler-dealer” attitude**

A fraudster may display an attitude involving shrewd or unscrupulous behavior.



# What can be done to prevent fraud?

Every employee, regardless of position, can help prevent fraud. What can you do to protect Brock University?

In addition to organization-wide controls, individual employees are essential in preventing and detecting fraud. Here's how you, and your colleagues, can make a difference.

1. Participate in fraud awareness training
2. Be aware of red flags and trust your instincts
3. Report irregularities

## Reference

Association of Certified Fraud Examiners. How to be a fraud fighter in your organization. ACFE, 2022, chrome-extension://efaidnbmnnnibpcjpcglclefindmkaj/https://www.fraudweek.com/-/media/files/fraudweek/pdfs/how\_to\_be\_a\_fraud\_fighter\_2022.ashx. Pamphlet.