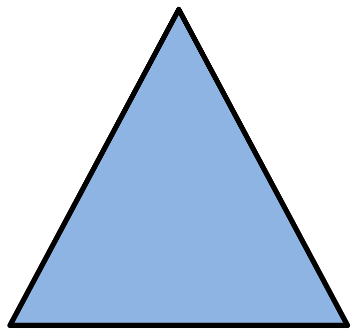
CONCEPT: FRAUD AND THE FRAUD TRIANGLE

● ***Fraud*** – a dishonest act by an employee for personal benefit at the cost of the employer

□ Stealing money from the cash register

□ Stealing Inventory from the warehouse

□ Creating fake invoices paid by the company



● ***Opportunity*** – the workplace environment must provide an opportunity to commit fraud

□ The most important element of the fraud triangle

□ Example: Cash registers are not counted at the end of the day

● ***Incentive (or Financial Pressure)*** – the reason the employee wants to commit fraud

□ Example: The employee is behind on bill payments.

□ Example: The employee wants to live a lavish life.

● ***Personality to Rationalize*** – the employee must feel OK with the dishonest behavior

□ Example: The employee believes they are underpaid and deserve more money.

● To minimize the opportunity to commit fraud, companies use ***internal controls***

□ ***Internal Controls*** safeguard assets, make financial information more reliable, and ensure compliance with laws