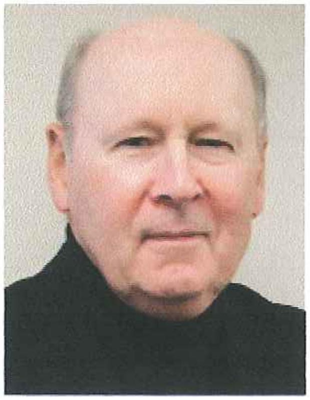
WBJournal.com
Worcester Business Journal Online

JANUARY 3, 2011 | LAST UPDATED MARCH 25, 2012 6:42 AM



MARK LOVE

10. The Fraud Triangle

Every fraud invariably includes three constants described in what is known as the Triangle of Fraud: opportunity, pressures and rationalization.

9. Opportunity

The existence of opportunity can run the spectrum: from poor internal accounting controls to management overrides to lack of segregation of duties.

8. Pressures

Countless employee pressures can surface causing even good employees to commit fraud.

7. Rationalization

Rationalization also runs a full spectrum of possibilities, from claims of being underpaid and overworked, to the offender maintaining that he/she was going to return it when things improved.

6. Myths

There are common misconceptions about fraud, including that it only occurs nationally, never locally; at publicly traded companies, never privately held; at big companies, never small ones; at for-profit, never nonprofit. These are all false.

5. SOX

The Sarbanes-Oxley Act of 2002 (SOX) was supposed to help curb the occurrence of fraud. The Association of Certified Fraud Examiners opines that fraud is still as prevalent today as it was in 2002.

4. Types of Fraud

While there are countless schemes and occurrences of fraud, there are really only two broad types: misappropriation of assets and misrepresentation of financial information.

3. Misappropriation

The practical definition of misappropriation of assets is stealing. The perpetrator may steal cash, inventory, equipment and/or other assets.

2. Misrepresentation

The practical definition of misrepresentation is lying. The perpetrator may overstate revenues and assets or understate liabilities and expenses in financial statements.

1. Prevention

Historically, fraud only has so long of a life. The key is not so much detecting it but preventing it. Know the signs and understand the strengths and weaknesses of your accounting controls.