

The Influence of Fraud Triangle Framework on the Fraud Prevention and Detection Programs in PT. XX

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Abstract

Given the significant variability of fraud instances in businesses of all sizes, it is captivating that despite their complexity, the fraud triangle's three elements can be used to explain all of them. As a result, the researcher was compelled to examine the impact of this framework on fraud programs. This report aims to thoroughly analyze the fraud triangle's influence on fraud prevention and detection programs, particularly at PT. XX. This qualitative research data collection comprises two main target population sources, the internal auditor team and the company's management, through a semi-structured interview approach where data is later processed using the in vivo and pattern coding technique. It is found from the study that each dimension of the fraud triangle which are pressure, opportunity, and rationalization, has a direct causal link to a fraud program described in the company's fraud SOP. The analysis concluded that the internal auditor team used the fraud triangle framework to identify patterns in fraud justifications and then developed several preventive fraud programs that management and users will implement to reduce the amount of fraud occurring in PT. XX. Further findings included the mutually reinforcing roles undertaken by the two divisions under study in creating the SOP and carrying out the company's fraud programs, which the study contends have already been effectively executed.

Keywords: fraud triangle; fraud programs; internal auditor

A. INTRODUCTION

Good corporate governance principles must form the foundation of the management in the company, namely transparency, accountability, responsibility, independence, and fairness. In order to do that, the company needs to develop an organizational behaviour that reflects clarity of values, honesty, and ethics that are free from elements of fraud which can damage the fundamental values in managing a company. Concerning this, fraud is an issue that cannot be neglected in today's business environment, particularly audits, as it can be damaging. Furthermore, not only big companies, but fraudulent acts too can occur in all businesses, from the small to the large scale.

According to Black's Law Dictionary, fraud can be defined as "all multifarious means which human ingenuity can devise, and which are resorted to by one individual to get an advantage over another by false suggestions or suppression of the truth. It includes all surprise, trick, cunning or dissembling, and any unfair way another is cheated." In understanding this dishonest action, the fraud triangle theory is a model composed of three elements explaining the factors that could drive someone to commit fraud. Donald R. Cressey first introduced the concept, built on the premise that fraud will likely result from a combination of three factors: pressure, opportunity, and rationalization (Cressey, 1953).

PT. XX, in this case, is an emerging 5-year-old, Jakarta-based business that engages in digital logistic platforms within the transportation, logistics, supply chain, and storage industry. Eminent stated that the logistics and transportation industry, a highly competitive market with relatively low-profit margins, pushes companies to be proactive and quickly decide to stay ahead. Moreover, fraud can be a serious or existential concern, given that there is minimal space for mistakes in such a setting. Therefore, strong fraud prevention and detection is deemed needed by the management to reduce the incidence of fraud and associated expenses. Agreeably, the primary reasonings for the action are strongly tied to the design of a fraud prevention and detection program. By examining the rationale for this activity, policymakers may develop a program that is expected to be successfully implemented to avoid fraud in the firm. Moreover, as the root causes of fraud cases in general, it cannot be denied that the fraud triangle factors are very likely to influence these company policies directly. Its evidence is further

confirmed, as following the Statement on Auditing Standards No. 99, three parts of the fraud triangle can be recognized when fraud occurs. Much research has been conducted on fraud firms' characteristics, giving analytical support for the fraud triangle classifications and developing a list of "red flags" included in SAS No. 82 and SAS No. 99 (Hogan et al., 2008). Reflecting on this significance and relevancy, this study intends to investigate the real-life application of the fraud triangle theory to measure its attributes and influence on the design of fraud prevention and detection programs, particularly at PT. XX.

B. RESEARCH METHOD

In order to address the "how" research questions and facilitate a deeper knowledge of the context, the qualitative technique is considered appropriate and will be used by the researcher to gather the data for the study. In this study, the researcher collected data using interviews and documentation studies. The research used a semi-structured interview question approach where in its implementation, the researcher asks only a predetermined set of open-ended questions while the rest are not planned, as they are expected to prompt discussion. The list of questions is taken from the Question To Consider reference in the IPPF Practice Guide on Internal Auditing and Fraud. The sample size for the interview is four people consisting of two internal auditor team members and two management staff of PT. XX through judgemental sampling as the informants were deemed competent and could provide an overview of implementing the company's fraud prevention and detection programs. The data collected from the in-depth interview is then analyzed using the in vivo and pattern coding technique by creating a sentence-to-phrase format code to help capture the main points of the interviews with the informants. In building the theory and verifying the data, triangulation is applied. The triangulation of data sources through an observer participant. In this participatory analysis, the researcher attempts to contrast her own and the triangulated interpretations of the data. All of the stages explained previously are inseparable from analytic memo writing. Lastly, to summarise & shape/visualize the findings, the research will be closed with a conclusion that includes an entity-relationship diagram.

C. RESULTS AND DISCUSSION

Firstly, an important finding regarding the role of the policymakers was learned. Although some of the workload in fraud risk mapping typically belongs to a risk management division, this did not become a problem for PT. As the internal auditor team, XX is under control seeing the company's scale. It has not been seen as a burden because it is already part of the internal auditor's set skill to have basic risk management knowledge. Following this, PT. XX's fraud prevention and detection program flow may thus be summarised as follows: the management granted permission for the internal auditor to access users' information, and the internal auditor team first identified fraud threats. They then incorporate their findings into the audit report through evaluations and recommendations. The management received this report, examined it, and implemented the recommendations by delegating tasks to its divisions. Later on, the two parties collaborate to create an SOP that will be adopted to prevent fraud and its implementation in the company's activities to achieve company goals in the long run eventually.

The analysis continues to dig into the fraud triangle dimensions' influence on fraud programs. All four informants agree that although the fraud triangle theory may seem conceptual, they, as practitioners, consider it very much applicable in their real-world line of work and helps review and improve the existing SOP. This result supports the researcher's initial premise that the primary grounds for a fraudulent act are closely related to creating a program for preventing and detecting fraud. The researcher's following query further prompted the informants to give specific instances of how each aspect of this framework impacted the fraud programs.

There are two clear examples of the pressure variable: the fraud prevention and detection program described in the SOP was intended to lessen the risk of employee pressure. An SOP detailing supervisor's approval of expenses was created to eliminate the urge from a perpetrator's familial pressure to obtain money for hospital bills during the Covid-19 pandemic. Moreover, another SOP regarding a system to set achievable work goals was also made because of the perpetrator's pressure. However, in this case, it was working-environment-related pressure to reach a certain target, in consonance with SAS No. 99. Afterwards, the opportunity variable was commonly caused by weak internal controls existing in a

company, according to all the informants. This misfortune also occurred during the Covid-19 pandemic; at that time, one of the informants admitted that the internal control was caught off guard due to business uncertainties and created opportunities for fraud to happen. This led to the creation of a fraud program regarding segregating employees' duties to minimize that opportunity.

Moreover, lastly, the rationalization variable originated from the perpetrator. The management team is well aware of how crucial it is to emphasize a code of ethics that is also stated in the SOP addressing fraud, that unlawful conduct is not accepted in the business. Additional efforts to create a supportive work environment are also made to foster a positive work atmosphere, all intended to eliminate the likelihood of fraud rationalization among employees.

Therefore, based on those findings, it is clear to see the concrete influence of the fraud triangle dimensions on the fraud program in PT. XX. The research has clarified the causal relationship between the study's X and Y variables, and lastly, in seeing the implementation of the programs mentioned since the fraud programs in PT. XX is continuously improved, whether regularly or as a result of each instance that arises. To reduce every coming risk, the researcher used this finding to determine that the fraud programs are properly being carried out. Furthermore, the informants asserted that SOP fraud programs are also conducted with other supporting initiatives to significantly decrease the risk of fraud, wrapping up all the fraud-fighting efforts. To help visualize the emerging narrative, below is presented an entity-relationship diagram.

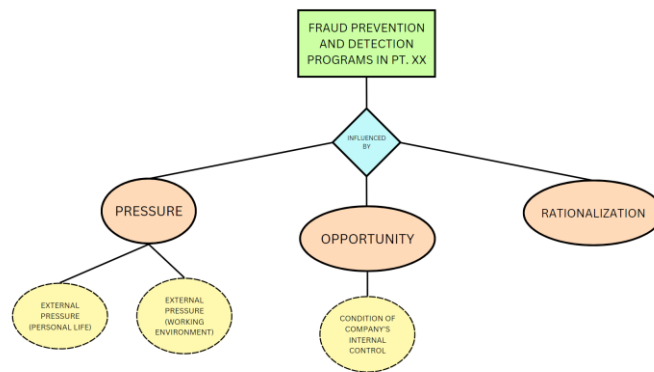


Figure 1. Proposed Programs

Sources: Research data, 2023

D. CONCLUSION

As a substantial heterogeneity of fraud cases occurred in companies of all sizes, it is quite thought-provoking to identify that despite their many-sidedness, the reasoning for all of them can be rooted back into three dimensions under the framework fraud triangle. This prompted the researcher to investigate the impact of this framework on its other end, fraud programs, and study its dynamics and influences. The objective of this research is achieved by applying a qualitative grounded theory to assess the influence between the dimensions of the fraud triangle framework that consists of pressure, opportunity, and rationalization to the fraud prevention and detection program, particularly in PT. XX. The raw data used are obtained using a semi-structured interview approach with two main target populations of interviewees, the internal auditor team and the company's management. It is later processed with the in vivo and pattern coding technique by creating a sentence-to-phrase format code to help capture the main points of the interviews with the informants. Based on this, the researcher found that in PT. XX, according to the sources, each dimension of the fraud triangle framework has a causal relationship towards a fraud program penned in the SOP. The analysis concluded that the internal auditor team utilized the fraud triangle framework in seeing the patterns of fraud reasonings to design later a series of preventive fraud programs that the management and user will implement, which are expected to minimize the amount of fraud happening in the company. In addition, the researcher also gained insights and became aware of the

intersecting roles between the two studied divisions in establishing the SOP and the execution of the fraud programs in this company, which the research reckon has already been well-implemented.

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