Reducing the High Pressure:
Using the Fraud Triangle to Manage Culture, Risks

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Who is this guy?

- Writing, blogging independently at www.RadicalCompliance.Com
- Previously editor at Compliance Week, 2006-2016
- Doing various research, writing projects for private clients

Yes, we all worry about culture

- Boards and CEOs worry about culture nonstop
- Corporate values, mission statements—they’re everywhere
- Policy proliferation happening every day
- So why are employees still so cynical, and why do they struggle to know what to do?
The Fraud Triangle:

The triangle must fit your risks

Imagine...
- Global corporation
- Overseas sales agent
- Emerging market
- Tough sales quotas

What would that look like?
It might look like this:

- Lots of pressure (‘No sales, means no job, means no food on table’)
- Lots of rationalization (‘They will never notice’)
- Low opportunity (tight controls)

A real-world example: Sales quotas

- More opportunity
- Lots of pressure
- Less rationalization

One risk can have *multiple* triangles within the same organization.

Consider embezzlement risk...
For a low-level employee...

- Lots of pressure
- Easy rationalization
- Little opportunity

For the CFO...

- No pressure
- Mixed rationalization
- Easy opportunity
For the CFO...

- No pressure
- Mixed rationalization
- Easy opportunity

So how do you take a measurement, exactly?

Whatever criteria make sense...

- Risk library
- Risk tolerances from the board
- Workforce surveys
Whatever criteria make sense

- Risk library
- Risk tolerances from the board
- Workforce surveys

And my favorite...

The Anti-Fraud Triangle
Design the Right Anti-Fraud Triangle

- If you have strong culture, people can withstand more pressure
- If you have good values, people will say, 'That's something I just won't do.'
- If you have strong controls, policies, people have less opportunity
The final takeaways...

- Misconduct comes in many forms. So do its causes.
- Designing the right fraud triangle depends on risk assessment, control environment.
- From your fraud triangle, reverse-engineer your anti-fraud triangle.
- ‘A problem in your control environment should be a full-stop moment.’

Recommended reading...

- Fitting the Fraud Triangle to Wells Fargo
- Ideas on Auditing Organizational Culture
- Lessons on Institutional Lying From the Army
- COSO Fraud Risk Guidance

Thank you

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