אחריות ממשלות למניעת הונאות והחשיבות של יצירת סביבה ארגונית נטולת הונאות

Government Responsibility for Fraud-Prevention and the Importance of Creating a Fraud-Free Organizational Environment

Steven Hawkins[1] , Chad Albrecht[2], Steve Albrecht[3]

תקציר

במהלך שני העשורים האחרונים, אנו עדים להונאות דיווח בקנה מידה גדול בדו״חות כספיים באזורים רבים בעולם, כולל איטליה (Parmalat), אוסטרליה (Harris Scarfe ו- HIH), קוריאה (SK Global), סין (YGX), יפן (Livedoor Co.), הולנד (Royal Ahold), צרפת (Vivendi), הודו (Satyam) וארצות הברית (Enron, Lehman Brothers and Bernie Madoff). הונאות אלה עלו לכלכלות ולמשקיעים טריליוני דולרים והובילו לאבטלה, לתביעות משפטיות ולרגולציה ממשלתית נוספת. במאמר זה, אנו מנסים להבין טוב יותר את הקשר בין הונאה לפיתוח כלכלי, ודנים בהשפעות השליליות של הונאות. יתר על כן, באמצעות משולש הונאה (Fraud Triangle), אנו מנתחים שלושה אירועים של הונאות בינלאומיות ואת תגובת הממשלות באותן מדינות. המאמר ממחיש את האיום המתמשך של הונאות כספיות, ואת החשיבות והאחריות של ממשלות לעסוק במניעת הונאות ופעילויות דומות אחרות.

Over the last two decades, we have witnessed large scale financial statement frauds in multiple areas of the world, including Italy (Parmalat), Australia (Harris Scarfe and HIH), Korea (SK Global), China (YGX), Japan (Livedoor Co.), Netherlands (Royal Ahold), France (Vivendi), India (Satyam) and the United States (Enron, Lehman Brothers and Bernie Madoff). These frauds have cost economies and investors trillions of dollars and resulted in unemployment, litigation, and additional government regulation. To better understand the relationship between fraud and economic development, in this paper we discuss the negative effects of fraud. Furthermore, using the Fraud Triangle we analyze three international frauds and their governments' responses. By so doing, we illustrate fraud's continuing threat and the importance and responsibility of governments to engage in fraud prevention and other similar-type activities.

---

[1] College of Business Central Washington University
[2] Huntsman School of Business, Utah State University
[3] Marriott School of Management, Brigham Young University

Introduction

Research suggests that fraud is a serious issue for organizations all over the world (Albrecht, et al, 2018). The problem is more serious, and costlier, than most managers, regulators and investors realize. While most people believe that organizations are the immediate victims of fraud, the public, and society as a whole, also suffer. The Association of Certified Fraud Examiners estimates that U.S. organizations on average lose five percent of revenue to fraud, and that fraud in the U.S. equates to roughly five percent of GDP (ACFE 2018).

Because fraud has such a detrimental impact on firms and organizations, clearly, investment toward eliminating fraud is money well spent (Peltier-Rivest and Lanoue 2015). Yet, because fraud itself is usually a complicated phenomenon, so too is fraud prevention. The accepted model for understanding why fraud occurs is often referred to as the fraud triangle. The fraud triangle describes fraud as the result of any combination of three variables, including: perceived *pressure*, perceived *opportunity*, and the ability to *rationalize* dishonest acts as acceptable. The model liberally applies these variables to all types of frauds, including consumer and vendor frauds, investment scams, financial statement frauds and employee embezzlements. In this article, however, we narrowly define fraud in terms of *management fraud*, in which an organization's officers deceive investors and creditors, usually by manipulating financial statements (Albrecht, 2003).

Research suggests that management faces numerous pressures that might lead to the commission of fraud, including: cash shortages, the inability of the firm to meet performance expectations, or even greed. Individuals, under pressure, often stumble across or actively seek opportunities to commit fraud that they hope will go unnoticed or unpunished, or both. Weak internal controls or a weak board of directors, for example, might convince would-be perpetrators that they can easily deceive the board and the company's external auditors. Finally, as once seemingly inconsequential decisions become increasingly egregious, perpetrators' consciences decay into a state of rationalization: integrity is sacrificed for reputation or wealth and honesty is put on hold until the financial storm passes.

In this article, we use the fraud triangle to better understand why fraud occurs for three reasons. First, the Fraud Triangle constitutes the accounting world's first attempt to theorize the psychological elements common to all frauds,[4] and it is still widely used in accounting research (Trompeter et al. 2013). Second, subsequent accounting theories, such as positive accounting theory (Demski 1988) and agency theory (Jensen and Meckling 1976), have since sustained its component parts. These theories predict that external and internal influences, such as

[4] The concept behind the Fraud Triangle was originally developed by Donald Cressey in 1953.

compensation packages and political costs, pressure management to deviate from otherwise natural behavior. They blame traditional corporate organization for leaving open opportunities for self-enrichment at shareholders' expense and blame traditional corporate culture for producing soft ethical restraints incapable of checking the amoral. Third, we rely on the Fraud Triangle because its language was explicitly adopted by the American Institute of Certified Public Accountants' (AICPA Statement of Auditing Standards No. 99 - SAS No. 99), entitled *Consideration of Fraud in a Financial Statement Audit.* SAS No. 99 lists "three conditions… generally present when fraud occurs": pressure, opportunity, and rationalization (AICPA 2002). These three variables are repeatedly referenced throughout the document in connection with fraud prevention, deterrence, and detection. The AICPA's reliance on the Fraud Triangle infers its acceptance by the entire accounting profession.

International Fraud

To better understand the crippling effect of fraud on national economies, we now examine three significant frauds from three different countries, including: Enron in the United States, SK Global in South Korea, and YGX in China. While these three frauds occurred roughly 10-20 year ago, through the lens of history, we are able to better understand exactly what happened and from the frauds can learn how to prevent similar fraud from taking place today. Furthermore, using the Fraud Triangle's three variables, we are able to dissect each fraud and the corresponding responses by government.

United States: Enron

In 2000, Enron, an upstart of only fifteen years, won the Financial Times' "Energy Company of the Year," and in 2001 was named *Fortune's* "Most Innovative Company" for the sixth year in a row. Enron had grown its annual revenues to over $150 billion, with shares selling at a record $84.87, and ranking number seven in the *Fortune 500* listing. As Enron reached for the skies, however, its foundation had already begun to crumble. Global expansion into the broadband and transportation markets had stretched its resources too thin, and world recession had slashed its income and prevented the liquidation of liabilities. Meanwhile, semblances of trouble were swept neatly under the rug, allowing Enron to maintain its magical luster in the eyes of investors.

Leading Enron's damage-control team were Chief Executive Officer Jeff Skilling and Chief Operating Officer Richard Causey. Skilling and Causey designed over a dozen separate schemes, many of which were executed by Chief Financial Officer Andrew Fastow. The schemes were intended to mask Enron's losses and dress-up its trading value. For example, the Securities and Exchange Commission (SEC) accused Skilling and Causey of not reporting one billion dollars of profit generated from its energy trading business, and later using a "cookie jar" fund to cover up losses created by other ventures. Even more complex was Enron's manipulation of Special Purpose Entities (SPEs), business entities created by Enron for a specific task. Enron's

SPEs were directly controlled by Fastow and others, and usually guaranteed in some form by their parent company. As such, Enron should have reported all SPE liabilities as its own.

Enron: Pressure

As identified by the SEC's complaint against Skilling and Causey, Enron executives faced numerous perceived pressures to commit fraud. Among them were the pressures "to produce reported recurring earnings that grew smoothly by approximately 15 to 20 percent annually; to meet or exceed the published expectations of industry [and Wall Street] analysts...to persuade investors that Enron's profitability would continue to grow; [and] to maintain an investment-grade credit rating..." (SEC 2004). Personal motivation for Fastow and others to submit to Skilling and Causey's schemes may have resulted from the climate of intense pressure first instituted by Enron founder Kenneth Lay and perpetuated by Skilling, Lay's protégé and successor. Skilling initiated a "360-Degree Review," which became known as "the harshest employee-ranking system in the country" (Thomas 2002). The review quickly expelled those who failed—Enron boasted a fifteen percent employee replacement ratio—and awarded those who passed with limitless incentives. Born into this generation of Enron employees, Fastow worked his way into his post as CFO by consistently meeting management's expectations and, could only hope to hold onto it by continuing to do the same. In the end, however, promised personal financial gains—Fastow illicitly made over $30 million—may have been the final element that pressured employees into executing Skilling and Causey's schemes.

Enron: Opportunity

The Powers Report, commissioned by Enron's Board of Directors, blamed loosely applied internal controls and distracted auditors for the ease with which fraud was perpetrated at Enron. Moreover, the report noted Enron's frauds had the cooperation of multiple investment banks that facilitated the rapid and frequent transfers of millions of dollars. The Board of Directors and Arthur Anderson, Enron's external auditor, consented fully to the creation of the SPEs, and agreed to designate them as independent entities. According to the Powers Report, "The Board approved Fastow's participation in the LJM partnerships [SPEs] with full knowledge and discussion of the obvious conflict of interest that would result" (Powers 2002, 9). The Powers Report accused the Board of Directors of constructing ridiculously weak controls to monitor the SPEs; controls, it observed, that the Board never even implemented.

A Senate report entitled "Financial Oversight of Enron: The SEC and Private-Sector Watchdogs" heavily implicated the SEC and Wall Street analysts for leaving open opportunities for Enron executives to commit fraud (Senate Committee on Governmental Affairs 2002). The report described the SEC's relationship with Enron as a "passive interaction" in which the SEC both failed to follow-up on warning signs and relied too heavily on private gatekeepers to "ensure the flow of honest and accurate information". Wall Street analysts failed to objectively

assess the value of Enron stock, duping small investors into buying when all indicators called Enron's profits mysterious and its future unstable. The report declared, "Many of these analysts worked for banks that derived large investment banking fees from Enron deals, invested in Enron's off-balance-sheet partnerships, and/or had significant credit exposure to Enron".

Enron: Rationalization

The perhaps-historically unprecedented ability of Enron executives to rationalize their behavior is evidenced by both the magnitude and frequency of the frauds. In less than five years, they ballooned Enron's market value to over $150 billion. Skilling sold personal Enron shares at the inflated values he artificially created, bringing in over $62 million; Causey did the same for $10 million. Fastow complimented his own salary with over $30 million in management fees and awarded him through dozens of illegal transactions with SPEs. In addition, Enron's culture probably instigated a permissive laissez faire attitude among employees. It emphasized the positive immediate value of deals instead of their long-term importance and, gave employees inappropriate flexibility to determine which deals to finalize (Thomas 2002).

Public Response to Enron

Congress and the SEC countered Enron and other corporate scandals with new legislation, stricter regulations, and full-enforcement of the law. Specifically, Congress passed the Sarbanes-Oxley Act of 2002, which addressed the opportunities that allowed Enron management to commit fraud. For example, the Act dictates the composition of the Boards of Directors and delineates specific auditing responsibilities, and it limits the relationship between audit firms and their clients. The Act also requires CEOs and CFOs to sign both an "internal control report" that assesses the effectiveness of their companies' internal auditing controls and their companies' financial statements, both as guarantees of accuracy.

In conjunction with the Sarbanes-Oxley Act, the SEC created the Public Companies Accounting Oversight Board (PCAOB). The PCAOB's mission directly revokes the accounting profession's centuries-old reliance on self-discipline, instituting instead an environment of regulation and reporting. The AICPA, NASDAQ, and the NYSE have each participated in enforcing Sarbanes-Oxley's requirements and revamping Generally Accepted Accounting Principles (GAAP). In addition, Sarbanes-Oxley requires that the SEC carefully inspect each company's use of SPEs and off-the-book disclosures (H.R. 3763 – 107th Congress (2001-2002))

The federal government has also indicted many of Enron's perpetrators. In all, it has charged over thirty Enron employees, highlighted by the February 19, 2004 35-count indictment of Skilling, who faces life in prison and $80 million in fines. Causey faces 31 counts of conspiracy, wire fraud, securities fraud, insider trading and making false statements on financial reports. In exchange for the testimony that led to Skilling's arrest, Fastow accepted a ten-year sentence, avoiding the bulk of the punishment pending his original 119-count indictment. The government

has yet to indict founder and former CEO Kenneth Lay, though he is widely suspected as complicit in the frauds.

Korea: SK Global

Founded in 1956 in Soowon, Korea, the Sun-kyung Textile Company later expanded into the global information technology and energy markets and, took the name Sun-Kyung Global (SK Global). In 1999 and 2000, SK Global, an otherwise inconspicuous corporation, suddenly reported annual net incomes of over $40 million, up from its previous average of $6.5 million. Though it fared well on paper, SK Global was actually struggling to survive during the late 90s recession, known in Korea as "The IMF Economic Crisis." As a result of the crisis, the Financial Supervisory Service (FSS) demanded that every Korean security corporation exceed its minimum net assets ratio by at least 150%. Desperate to offset operational losses and meet these new requirements, SK Securities, the parent of SK Global, turned to the American bank JP Morgan for help.

In 1997, JP Morgan had brokered an SK Securities derivatives investment in Indonesia. When the investment turned sour, SK Securities' losses totaled $142 million, with a substantial debt owed to JP Morgan. However, after the IMF Economic Crisis, in spite of the win-lose basis on which the relationship began, SK Securities again successfully wooed a substantial investment from JP Morgan, which contracted to purchase new shares in the Korean company. Hidden to the public, however, was a clause stipulating that SK Securities would repurchase the shares with interest. SK Securities hoped that in the meantime, the infusion of outside investment would boost stock values high enough to stabilize it against the threat of liquidation and also cover the $357 million it owed to JP Morgan.

SK Global: Pressure

The landmark JP Morgan investment, however, did not produce the level of investor confidence necessary to spring the company back to life. Though it escaped the liquidation crisis, the Korean recession persisted and SK Global's day-to-day operations continued to flounder. Management became all too aware that the company would soon default on the JP Morgan loan and come crashing to the ground. To circumvent disaster, it began manipulating SK Global's accounting reports.

SK Global perpetrated the classic fraud: it purposely misrepresented financial information to convey to stockholders a message of financial stability. Among other things, SK Global falsely reported accounts receivable worth $125 million. It intentionally overstated the net assets of subsidiaries and, dropped a $200 million loss from its 2001 annual report. SK Global also forged a note worth $1 billion. All told, SK Global's management carried out a $1.17 billion fraud, third largest in Korean history.

SK Global: Opportunity

A lack of external controls assisted the fraud perpetrators at SK Global. Its audit firm, when confirming SK Global's accounts receivable and bank loans, failed to follow Generally Accepted Auditing Standards. Instead of requesting confirmation letters directly from the related correspondents, the audit firm collected them from SK Global, which presented the firm with forged letters. Eleven domestic banks and one foreign bank failed to note discrepancies in the balances when they wrote back the financial transaction letters. In addition, they sent the letters—two of which contained inflated financial information—not to the audit firm but directly to SK Global.

SK Global: Rationalization

SK Global's defense counsel insisted that by covering up its financial woes, SK Global had in fact done the Korean economy a favor, preventing further declines in investor confidence. Both the company's fraud and this subsequent display of arrogance can be largely attributed to flawed cultural traditions that now dominate corporate Korea. A characteristic trait of Korean enterprises is that management is often provided by immediate family members or blood relations of the founder and owners, also known as a *Jaebul.* The owner of a *Jaebul* rules his company as if an emperor, with virtually no internal controls to hold him accountable. Especially before the IMF Economic Crisis, *Jaebul* "emperors" were considered sovereign within their companies, free to commit whatever types of frauds they wished without reprise. Another characteristic of Korean enterprises is embodied in the saying *Daema Bulsa*, which means "a big horse cannot fall (die)." In the context of business, *Daema Bulsa* implies that if a man (or company) is powerful enough, not even the law can easily bring him down.

Public Response to SK Global

In response to SK Global's fraud, the Korean government, led by the FSS, announced a plan to institute an advanced accounting system that involves the reformation of several government initiatives. The new Securities Exchange Act strengthened internal controls, delineated the makeup of audit committees, and addressed conflicts of interest. The revised CPA Act also addressed conflicts of interest and required CPA applicants to undergo more classroom and in-service training.

China: YGX

YinGuangXia (YGX) was founded in 1987. Until 1994, the Shenzhen Stock Exchange listed it as a relatively obscure producer of floppy disks. Over the next four years, YGX aggressively diversified into the production of toothpaste, cement, wine, and other goods. Despite this explosive expansion, it consistently failed to earn significant profits. In 1994, it netted only $2.8 million, and three years later, the substantially bigger YGX netted just $6 million. Meanwhile, earnings hovered at a meager three cents per share.

To boost its value, YGX went beyond creative accounting into *imaginative* accounting. In October 1998, it reported a landmark deal with the German Fidelity Trading company. Fidelity contracted to purchase $30 million worth of biological extraction products manufactured by YGX. As a result of the announcement, YGX's net income shot up 330% from $15 million in 1999 to over $50 million in 2000. Suddenly, YGX registered third in the Shen Zhen Stock Exchange and fourteenth in the 2000 EVA ranking of Chinese companies.

In reality, YGX management fabricated the entire Fidelity deal. An article of the Beijing magazine *Caijing*, entitled "The YGX Trap," first reported the fraud (Ling and Wang 2001). According to *Caijing*, while Fidelity Trading does operate in Germany, it probably never contracted to import YGX products. Fidelity is a producer of mechanical products and a technical consulting firm; it does not conduct any regular business with the biological industry. In fact, Fidelity, which boasts capital stock of only $60,000, probably could never afford to import $30 million per year worth of products. *Caijing* also reported that the Tianjin customs office registered YGX's 1999 exports at only $4.8 million and its 2000 exports at a dismal $30,000—far short of the reported shipments to Germany. A month after the *Caijing* report, a special investigation team formed by the Chinese Securities Regulation Committee (CSRC) confirmed *Caijing*'s accusations of the YGX fraud. In all, YGX fabricated $126 million of revenue and $93 million of profit between 1998 and 2001.

YGX: Pressure

There are two pressures that Chinese firms often confront. First, firms who report losses in three consecutive years face the possibility of being delisted. YGX, though, maintained positive earnings throughout the period of the Fidelity fraud scam. Second, at the time, Chinese firms were required to realize at least a ten percent return on equity (ROE) to qualify for rights issuing (which is to sell shares proportionally to current shareholders). YGX's ROE in 1999 and 2000—during the Fidelity scam—registered at 13.5% and 34.56% respectively, far exceeding the ten percent requirement. Many have speculated, though, that YGX's business had been running on falsified earnings for several years and that the Fidelity scam was the result of pressure to maintain its façade. It may also be that the YGX fraud was inspired by the greed of individual managers and heads of related institutions, several of whom profited greatly from insider trading and manipulating YGX's records (Shi 2002).

YGX: Opportunity

The CSRC reported that YGX conducted its fraud by falsifying contracts, customs declarations, value-added tax invoices, tax exemption approvals, and bank documents. YGX, like most previously state-owned companies in China, had little or no internal controls. The Chinese Communist Party did not rely on internal monitoring to maintain the integrity of its industries; instead, it advocated the communist ideology of self-restraint. Often, ideological purity, or

"redness," not professional experience, dictated to whom control of state-owned enterprises was given. Moreover, the Party relied on political discipline rather than criminal prosecution to punish most corruption. As a result, companies like YGX that have been transferred into private hands (although YGX is still legally state-owned) typically suffer from incomplete controls, inexperienced management, and virtually no system of formal discipline.

In 2000, Liu and Li reviewed each organization responsible for monitoring YGX. They concluded that the CSRC and related stock exchanges actively ignored accounting irregularities. YGX's auditors allowed YGX employees to handle confirmation letters and failed to require a physical accounting of YGX's inventory. In addition, because China's institutional investors are restricted to real market transactions, the potential subsequent economic downturns that follow revelations of fraud offer investors rich incentives to not expose corporate criminals. Moreover, China's legal system, unlike the United States', disallowed investors the threat of civil litigation as an indirect protection of their investments. In the end, at the time, the CSRC was the only entity empowered to supervise China's markets; and since the revelation of scandal caused the CSRC to lose significant face and reputational damage, it often chooses not to expose existing frauds.

YGX: Rationalization

The non-transparency of China's government agencies like the CSRC makes difficult any investigation into a perpetrator's rationale. As mentioned above, YGX's shift from rigid state-ownership to quasi-private-ownership created opportunities for its management to commit fraud. Chinese newspapers later speculated that the transition from an ideology-driven management to a market-driven management also created a moral vacuum. This vacuum was intensified by the atheistic nature of communist China and newness of capitalist ideas.

Public Response to YGX

Most financial experts expected the YGX fraud to greatly change the landscape of China's budding economy. The CSRC quickly confirmed *Caijing*'s allegations of fraud. It suspended YGX from the Shenzhen Stock Exchange and issued a "penalty ticket" ordering YGX to pay a fine and restate its financial statements. The government arrested the six individuals purportedly responsible for the fraud. In addition, the Ministry of Finance revoked the license of Zhong Tian Qing, YGX's auditing firm. The only legislative-type reaction to YGX—the hurried January 2002 publication of *Codes of Corporate Governance for Listed Companies in China*—was first drafted in September 2001, just one month after the revelation of YGX's fraud. However, the document that inspired it, titled *Guidelines for Public Companies to Adopt Independent Directors*, was first released for comments three months before the fraud was exposed and was not directly related to the YGX case.

Despite the government's seemingly swift response, YGX was suspended from Shen Zhen's listings for only six months, and the CSRC required from YGX a fine of only $73,000 (YGX's fraud was over $93 million). Furthermore, perceived opportunity to escape litigation has increased as a result of the YGX case. Except for the original six individuals incriminated in the case, the government has yet to implicate a single member of YGX's management or board, including its Chairman. At one point, the CSRC publicly encouraged investors to file civil complaints against YGX. The Supreme Court, however, stymied this effort. In the past, the Court had rejected investors' claims that firms had defrauded them, arguing that market economics is necessarily accompanied by such risks. Then, just as investors geared up for the legal fight against YGX, the Court issued a temporary stay on all securities claims, meekly asserting its "technical incompetency" to preside over such issues. Finally, in January of 2002 the Supreme Court removed the stay, but simultaneously discouraged investors from pursuing securities complaints by setting four tough prerequisites.[5] As a result, the first civil suit against YGX was not accepted until as late as May 2004.

Implications for Fraud Prevention

As described earlier, fraud is typically the result of any combination of three elements: perceived pressure, perceived opportunity, and rationalization. The review conducted above suggests that governments have to this point failed to completely address all of the problems that lead to fraud, specifically addressing only *opportunity*. In the U.S., Sarbanes-Oxley's controls, the revamped SEC and its new oversight board (the PCAOB), and the increased risks of litigation all serve to restrict the number of perceived opportunities by which potential perpetrators may commit frauds that go unnoticed or unpunished. In Korea, the FSS's advanced accounting system and its public enforcement efforts, though not as extensive as the U.S.'s, do shrink the gaps through which potential perpetrators might sneak. Still, many Korean economic and financial experts have criticized the FSS's limited response, warning it may not be enough to prevent future occurrences of fraud (Kim 2003). In China, the public response to YGX focused on punishment of the individuals and firms involved in the scandal. However, due to a disproportionately small fine, inadequate prosecution of the individuals involved, and the Supreme Court's injunction against civil suits, perceived opportunities to commit financial fraud in China may have actually increased.

The heavy-handed response against opportunities to commit fraud will deter some would-be perpetrators from criminal activity. However, instead of eliminating the perpetrator, these governments' reactions only work to eliminate this environment, itself an impossible task. It is

[5] The prerequisites established by the court are: 1) only listed companies already penalized by the CSRC are eligible targets of lawsuits, 2) firms may only be sued if the CSRC's penalty was issued for false representation, 3) class action suits are not allowed, 4) lawsuits may only be heard at the provincial level.

unreasonable to assume that increased regulations and more powerful government agencies will totally eliminate the opportunities to commit fraud. Indeed, the aura of safety created by the implementation of intense controls may in fact provide additional opportunities. Some would-be perpetrators, like a flu strain or a computer hacker, will adapt to the changing circumstances and still find opportunities to engage in unlawful activity. Future frauds will be more likely prevented if lawmakers, auditors, and managers instead work to eliminate both the perpetrator (including pressures and rationalizations) and environment (opportunities).

While new regulations will discourage many frauds, opportunities can never be completely-eliminated. Hence, fraud, will likely arise again in the still-vulnerable American, Korean, and Chinese economies. Potential perpetrators who face the greatest pressures and whose integrity is most easily compromised will discover loopholes through which to commit fraud. Thus, while the number of frauds committed may or may not decline, the magnitude of frauds committed may likely reflect the extreme nature of the elements that combine to inspire them.

Managers and lawmakers should broaden their attack against financial crime, focusing on pressures and rationalizations, in addition to opportunities, and should become proactive rather than reactive in their attempts to fight fraud (Newman and Neier 2014). As discussed in other articles (Trompeter et al. 2013; Lofland and McNeal 2014; Abdullahi and Mansor 2018), the most common pressures that lead management to commit fraud are misplaced executive incentives, unrealistic Wall Street expectations, large amounts of debt, and greed. None of these factors have been adequately treated, if at all, in governance and legislation changes that have followed Enron, SK Global, and YGX. Along the same line, *rationalization,* which rises as societies' morals decline, has been almost completely ignored. According to Albrecht, et al., (2004) "The one legislative action that addresses this fraud element is requiring all companies to have an executive code of conduct. However, with decreasing integrity in society, it is doubtful that requiring a code of conduct will eliminate rationalizations." Of course, just as it is unreasonable to assume government can completely eradicate opportunities to commit fraud, so too it is unreasonable to assume it can completely eliminate the pressures and rationales that motivate and excuse fraudulent behavior. Fraud prevention, then, should focus on significantly reducing the prevalence of each element described by the Fraud Triangle.

Conclusion

The international development community has established the positive contributions of private enterprises on economic growth and poverty reduction. Private-sector fraud, though, like public-sector corruption, prevents businesses from prospering and fully supporting economic and social progress. Recent, highly-publicized frauds have underscored the need for managers and lawmakers to actively prevent future frauds. However, understanding the elements that conspire to make fraud, one can easily hypothesize that the newest regulations will not prevent the

recurrence of major financial crimes. All firms, whether operating in developed or undeveloped economies, should include fraud elimination and prevention efforts as a key component of their long-term strategy. Likewise, all governments, especially those in undeveloped countries, should include fraud elimination as a key component of their economic growth and poverty-reduction strategies. Those that successfully establish fraud-free business environments will be greatly compensated by foreign investment, increased transparency and economic growth.

REFERENCES

Abdullahi, R., and N. Mansor. 2018. Fraud prevention initiatives in the Nigerian public sector. *Journal of Financial Crime* 25 (2): 527–544.

ACFE. 2018. 2018 Report to the Nations. Association of Certified Fraud Examiners.

AICPA. (2002) Statement on Auditing Standards No. 99: Consideration of Fraud in a Financial Statement Audit.

Albrecht, C. Skousen, C., Skousen, B. and D. Holland, 2018, The Significant of Whistleblowing as an Anti-Fraud Measure, *Journal of Forensic and Investigative Accounting*, Volume 10: 1.

Albrecht, W.S. and C. Albrecht. (2003) *Fraud Examination*. Mason, OH: Thomson South-Western.

Albrecht, W. Steve, Conan C. Albrecht and Chad O Albrecht. (2004) Fraud and Corporate Executives: Agency, Stewardship, and Broken Trust. *Journal of Forensic Accounting*, 5: 109-130.

Cressey, Donald R. (1953) *Other People's Money: The Social Psychology of Embezzlement.* New York: Free Press.

Demski, J. S. 1988. Positive accounting theory: A review. *Accounting, Organizations and Society* 13 (6): 623–629.

FSS. (2003) Investigating Results of SKG, Mass Media Information. Public Relation Information Room of FSS, 1-11.

H.R.3763 - 107th Congress (2001-2002): Sarbanes-Oxley Act of 2002. Available at https://www.congress.gov/bill/107th-congress/house-bill/3763.

Jensen, M. C., and W. H. Meckling. 1976. THEORY OF THE FIRM: MANAGERIAL BEHAVIOR, AGENCY COSTS AND OWNERSHIP STRUCTURE. *Journal of Financial Economics* 3 (4): 305–360.

Kim, Sang-Jo. (2003) Fraud Conspiracy with Company, Audit Firm and Financial Institutes. *Korean Economic Newspaper*. August 21.

Ling, Huawei and Wang Shuo. (2001) The YGX Trap, *Caijing* (Beijing), August: 18-36 (in Chinese).

Liu, Feng and Li Ruping. (2000) Institutional Arrangement and Accounting Information Quality: A Case analysis of YGX. *A Working Paper of the Sun Yat-sen University School of Business* (in Chinese).

Lofland, C., and A. McNeal. 2014. What's Your Fraud IQ? *Journal of Accountancy* 217 (3): 46-50.

Newman, C. J., and D. S. Neier. 2014. Become Proactive, Not Reactive, to Anti-Fraud and Anti-Corruption Programs. *Financial Executive* 30 (4): 14–16.

Peltier-Rivest, D., and N. Lanoue. 2015. Cutting fraud losses in Canadian organizations. *Journal of Financial Crime* 22 (3): 295–304.

Powers, William C., Jr. (2002) Report of Investigation by the Special Investigative Committee of the Board of Directors of Enron Corp. Available at https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=2ahUKEwjB4Mzav7jeAhUxnOAKHeTZDoYQFjAAegQICRAC&url=http%3A%2F%2Fi.cnn.net%2Fcnn%2F2002%2FLAW%2F02%2F02%2Fenron.report%2Fpowers.report.pdf&usg=AOvVaw3S69MgwXgsTtVwBZyBIGll

SEC. (2004) Securities and Exchange Commission v. JEFFREY K. SKILLING, RICHARD A. CAUSEY. http://www.sec.gov/litigation/complaints/comp18582.htm.

Senate Committee on Governmental Affairs. (2002). Financial Oversight of Enron: The SEC and Private-Sector Watchdogs. Available at https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=2ahUKEwji1JH2wbjeAhVBc98KHS93AyUQFjAAegQIBBAC&url=https%3A%2F%2Fwww.g o.gov%2Ffdsys%2Fpkg%2FCPRT-107SPRT82147%2Fpdf%2FCPRT-107SPRT82147.pdf&usg=AOvVaw0ICFUzIgzi3T_NZKmPIn3o

Thomas, C. W. 2002. The Rise and Fall of Enron. *Journal of Accountancy* 193 (4): 41–48.

Trompeter, G. M., T. D. Carpenter, N. Desai, K. L. Jones, and R. A. Riley Jr. 2013. A Synthesis of Fraud-Related Research. *Auditing: A Journal of Practice & Theory* 32: 287–321.