JF|A Journal *of Forensic and*
Investigative Accounting
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Discourse Fraud Analysis: A New Paradigm for Forensic and Investigative Accounting

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Introduction

There is a need for a fraud analysis technique that explains how individual fraudulent behavior is impacted by organizational environmental conditions at the macro-level. Also, a more robust understanding of how fraud proliferates under certain organizational conditions is needed. Many existing models describe occurrences of fraud through individualistic explanations of human behavior (i.e., Cressey, 1953, Durkheim, 1964; Wolfe and Hermanson, 2004, Krancher et al., Dellaportas, 2013). However, few studies analyze with great depth the importance of critical discourse analysis and its relationship to the commission of fraud (Machin and Mayr, 2012).

Cultural understanding of environment and condition, including how contextual information is perceived and communicated, is also an important consideration in understanding the lenses in which we view, communicate within, and interact with the world. Moreover, the influence of power, values, and imposed standards in mediating these relationships may prove equally important in explaining situations ripe for the occurrence of fraud. Additionally, current explanations of why fraud occurs within organizations lack rigorous analysis of macro-level indicators that shape group fraudulent behavior. The exploratory research of Discourse Fraud Analysis analyzes the importance of internal influencers that mediate these relationships.

The need for more comprehensive forensic analysis tools to assist forensic accounting professionals has spurred the creation of an instrument that further explores discourse relationships. This research offers a forensic analysis and investigative auditing instrument and its perceived suitability to assess the likelihood that fraud may occur within an organization.

This article also serves as a primer for discussing limitations of historical fraud models in explaining these relationships and how Discourse Fraud Analysis can be used to help prevent and detect fraud. Moreover, this research proposes a macro-level (group) and micro-level (individual) analysis of fraud utilizing an instrument to determine an organization's overall fraud risk score. Thus, this study adds to the existing Critical Discourse Analysis (CDA) literature stream pertaining to fraud research.

Statement of the Problem

While there are many constructs and models that assist in our understanding of how fraud occurs, few models recognize the influence of power, environment, and culture in mediating and explaining decisions to engage in fraudulent, and thus, criminal behavior.

Research Question

How do discourse relationships (organizational culture, political influences, and power structure) impact the risk of the occurrence of fraud within organizational settings?

Methodology

This research provides an analysis of a forensic accounting tool and its suitability as an organizational-level fraud risk mitigation instrument. The research method for this study is Critical Discourse Analysis. W.T van Dijk (1995) purports that "critical discourse analysis (CDA) has become the general label for a special approach to the study of text and talk, emerging from critical linguistics, critical semiotics, and in general from a socio-politically conscious and oppositional way of investigating language, discourse and communication (p. 17)."

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Starting from the methodological assumption, this research utilizes observation as an interpretive paradigm to collect qualitative data for analysis. Moreover, sequential text analysis is used to observe the actions demonstrated and events reported by the individual being examined.

Theoretical Underpinnings of Fraudulent Behavior

Micro-level Explanations for Fraud

Rational Choice Theory

The prevailing theory often used to explain why individuals choose to engage in criminal behavior, including fraud, is Rational Choice Theory. The term 'rational choice' refers to a calculated and reasoned choice of an individual to voluntarily engage in acts that he or she recognizes as criminal. Rational Choice Theory may be defined as a process whereby available options are considered by an individual and the most attractive option is chosen based on certain criteria (Levin and Milgrom, 2004). In practice, an individual would consider possible options available and consciously choose the option that would provide the most perceived benefit by weighing both the costs of apprehension and the anticipated benefits of successfully completing the crime.

Sutherland's concept of white-collar crime was introduced to further describe the commission of reasoned criminal acts perpetrated by individuals within their legitimate business roles (Sutherland, 1940).

Differential Association Theory

Sutherland and Cressey (1978) are credited with the early vestiges of what is now considered the modern-day Fraud Triangle. Through differential association, Sutherland (1951) believed that individuals, through their associations with others and other learned behaviors, develop attitudes either in favor of or not in favor of the law. These associations assist in explaining how the rationalization process for the commission of crime occurs, based on five main tenants:

- Criminal behavior is learned through associations;
- Criminal behavior is learned though actual interactions with others and involves a process of both verbal communication and example;
- Learning primarily occurs through intimate personal groups;
- Learning involves individual learning techniques for committing crimes derived from accompanying motives, drives, rationalizations, and attitudes;
- Delinquency occurs because of excessive personal reactions favoring violation of the law (Sutherland, 1951).

Thus, differential association that leads to crime involves not only peer association interactions, but also interactions through verbal communication, behavior modeling, personal group relations, and other learning techniques. Additionally, crime is based on individual attitudes regarding a disposition that is either favorable or unfavorable toward the law.

Anomie Theory

Anomie theory, first introduced by Emile Durkheim in 1893, and later revised by Robert Merton (1938), has become one of the predominant theories to explain perspectives of both social strain and deviance. Durkheim's 1893 book *The Division of Labor in Society* describes the concept of anomie as 'deranged' and 'insatiable' behaviors of an individual created by a 'mismatch' of personal or group standards and wider social standards (Durkheim and Simpson, 1933). Moreover, anomie purports that a lack of social ethics can produce 'moral degradation' and result in an absence of prosocial aspirations (Durkheim and Simpson, 1933). Based on sociological perspectives, this theory, in turn, can cause a clash between individual needs, desires, and societal expectations. This believed 'mismatch' can result in an individual behaving in a manner that is not consistent with societal expectations, norms, and values.

Robert Merton (1938) expanded on Durkheim's work, by elaborating on anomie theory and describing the implications of strain on individuals based on behaviors demonstrated that are not only inconsistent with societal norms, but also deviant. Merton (1938) revises anomie theory to account for the effects of 'strain', and further expound upon the concept of 'fit' within society, in regards to individual decision-making. Moreover, Merton (1938) describes how cultural norms contribute to life goals, and how these norms are used as a means of achieving both individual and group goals. Merton (1938) emphasizes that success is often measured within cultures by monetary achievement, and individuals that do not meet monetary goals are perceived as being 'quitters'. Merton (1957) developed modes of 'adaptation' whereby individuals choose one of five strategies to deal with the anomie created by the strain they are experiencing. His concept of adaptation

included five components: 1) conformity, 2) innovation, 3) ritualism, 4) retreatism, and 5) rebellion (Merton, 1938). These concepts can best be described through an examination of both 'goals' and 'means' as follows:

- Conformity—Conformers accept both the goals of large society and the means by which society expects they be achieved.
- Innovation—Innovators may be seen as individuals that accept societal goals, but reject the means of achievement. That is, they accept the goal of monetary attainment, but seek means not consistent with society's expectations to meet these goals (i.e., someone who engages in lucrative drug sales for money).
- Ritualism—Ritualists go through the motion of daily life, even though they do not accept the goals or values that align with overall societal expectations.
- Retreatism—Retreatists both reject the goals of society (i.e., wealth attainment) and also reject the means by which to achieve these goals (Merton, 1938).
- Rebellion—Rebels reject both the goals of society and seek to replace them with new goals that better suit their needs (i.e., a New World Order) (Merton, 1938).

Merton's (1938) analysis is not directly aimed at the individual, but rather at how an individual reacts to expectations placed upon him or her within a society. However, it is important to recognize that not everyone will resolve conflicts in the same manner. Therefore, dynamic models are needed to explain how cultural norms impact deviant individual behaviors, and vice a versa.

The Fraud Triangle

The Fraud Triangle was first introduced by sociologist Donald Cressey in 1953. Cressey (1953) purported that individuals that engaged in fraudulent behavior often had 1) specific incentives or pressures that spurred their behavior; 2) rationalizations that perceivably justified their actions; and 3) opportunity to commit the crime. The "points" of the Fraud Triangle are described as:

- Incentive/Pressure: the 'motive' for committing the fraud;
- Rationalization: the person committing the fraud frequently rationalizes the fraud;
- Opportunity: the person committing the fraud sees an internal control weakness, believes no one will notice if funds are taken, and begins to commit fraud (Cressey, 1953).

The Fraud Diamond

The Fraud Diamond was developed by Wolfe and Hermanson (2004). In this model of fraud, the authors expand upon the Fraud Triangle by describing an additional micro-level explanation of why individuals commit fraud. In addition to previously described fraud indicators, the fraud diamond adds a fourth dimension to previously discussed indicators of fraud–*capability*. The concept of capability speaks to an individual's ability and skills needed to perpetrate a fraudulent act.

Components of Capability are Believed to Encompass:

- Position/function
- Intelligence
- Confidence/ego
- Coercion skills
- Deceit
- Stress management (Wolfe and Hermanson, 2004).

Plainly stated, the above six indicators describe: 1) how an individual's position and role intersect with opportunity; 2) the importance of intellect in the commission of specific types of fraud; 3) the self-assuredness that the individual has that she or he will be able to avoid detection; 4) the ability to influence others; 5) the ability to deceive; and 6) the ability to operate under stressful conditions to avoid apprehension. In a more recent study, Krancher et al., (2010) examined the pressure element of the fraud triangle and proposed the MICE (Money, Ideology, Coercion, and Ego/Entitlements) model to further address the impacts of pressure on individual decision-making. Finally, Dellaportas (2013) suggests that an individual's needs for both power and control are specific indicators of personality traits that may be present in fraudulent actors.

Macro-level Explanations for Fraud

Fairclough (1995) purports that social practice is best understood in certain situations (for example, within institutional and societal settings) where context and structure are defined through the lens of discourse. Fairclough's (1995) analysis examines several dimensions of social-cultural relationships including: 1) economic considerations; 2) political influences; 3) power dominance; and 4) organizational cultural practices.

Within similar social settings, Morales et al. (2014) describe the complexities of fraud. Specifically, the authors describe the disentanglement of fraud concerning what fraud is, its causes, and who is responsible for controlling it (Morales, et al., 2014). The authors found that understanding fraud requires careful attention to context itself. Additionally, Lokanan (2015) reports the importance of framing fraud as an issue that should be understood through both surveillance and observation, thus validating the work of accounting professionals as both necessary and valuable.

In a similar vein of social-cultural research, Rezaee (2002) provided a model for explaining three primary components needed to commit corporate fraud. The "3C" model examined the components of "Conditions," "Corporate Structure," and "Choice" as necessary elements for corporate fraud to occur (Rezaee, 2002). In this model, the author suggests that organizational environmental conditions facilitate motivations to commit financial statement fraud.
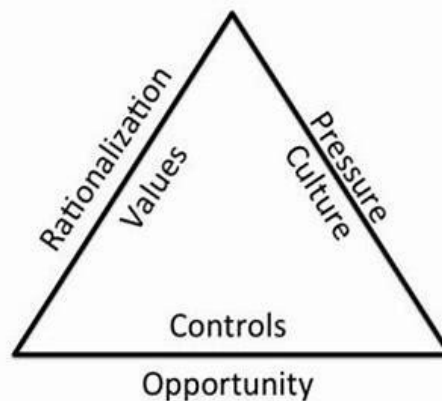
Micro/Macro Level Explanations for Fraud

Raramamurti et al. (2009) proposed the Bad Apple, Bad Bush, Bad Crop syndrome, a micro/macro-oriented model to explain individual and group behavior from a contextual perspective. Monikered the ABCs of Fraud, their model was unique in that it provided explanations for the commission of fraud beyond individualized reasons why people choose to commit fraud (Raramamurti et al., 2009). Similarly, Gonin, Palazzo, and Hoffrage (2011) argue that it is not the decay of the individual (apple) or influence of the organization (group), but rather that the answer lies in the 'larder'–described as the broader social context that organizations themselves operate within.

Practitioner Perspectives

Kelly (2017) proposes that while the Fraud Triangle provides strong individual explanations for the commission of fraud, the triangle itself disregards the impacts of risks, culture, and controls on individuals. Moreover, the author posits that professionals may be able to better improve the auditing function by understanding not only the Fraud Triangle, but also anti-fraud concepts (Kelly, 2017).

Through his Anti-Fraud Triangle presented in Figure 1, Kelly (2017) purports that in addition to Cressy's (1953) contributions, values, culture, and control are important factors that must be taken into consideration to prevent occurrences of fraud. Kelly (2017) highlights the importance of understanding the fine line between organizational pressure to perform and the cultural strain that occurs as a result of this pressure. Additionally, he addresses the need to examine culture and values within the context of available controls.

Figure 1: Anti-Fraud Triangle

Current Research Objective

This research aims to expound upon current macro and micro-level perspectives and explanations regarding why fraud occurs. By using a forensic interviewing tool, the influences of organizational culture, politics, and power on group and individual fraud behaviors is explored.

Internal and External Mechanisms to Detect and Deter Fraud

Internal Controls

Internal controls are widely used fraud prevention and detection mechanisms. In most businesses, it is not practical or possible to completely separate the finance and accounting functions to the degree necessary to maintain an effective system of internal controls. Oftentimes, for the sake of expediency, duties are not sufficiently separated between and among individuals. While this practice may assist in increasing efficiencies, it lends itself to instances of fraud. Moreover, when existing internal controls are lacking or are easily circumvented, there is no real system in place to help prevent fraud from occurring.

Audit Programs

Audit programs are widely used in various financial scenarios. Traditional audit programs and financial statement audits outline the steps auditors need to take to prepare an audit in accordance with generally accepted auditing standards (GAAP). Compliance audit programs focus on specific rules or criteria. In addition, operational audit programs help to determine if an organization is operating efficiently and effectively while meeting its objectives. These are just some of the basic audit programs that lead to an opinion and a report on how well the organization is performing as compared to the objectives and scope of the audit. Financial condition and status of the entity are also important auditing considerations.

Auditing and audit programs are considered, for the most part, mechanisms to deter fraud. Likewise, these mechanisms may produce by-products that may assist to find and prevent fraud. Auditors are held to a high standard regarding their ability to detect fraud and must disclose suspected fraud in their reports. However, it should be noted that overall expectations of both auditees and auditors are not always equally matched. Therefore, adherence to materially correct reporting, proper classified figures, and proper format are the ultimate goals when constructing auditing financial statements. Moreover, the use of materiality in auditing is an extremely important consideration in terms of sample size selection and determining acceptable error rate.

Investigative Auditing Techniques and Practices

Interviewing Techniques

Interviewing techniques are currently a strong method to assist in discovering fraud. Many methods use basic techniques of observation such as determining deception through the observation of eye movement or through speech pattern analysis. Many of these methods stem from criminal investigation interrogation techniques.

Surveillance Techniques

Video recording or observation techniques are the most commonly used means of surveillance. These techniques are often a reasonably effective way to discover visible fraud. However, the global issues associated with current surveillance techniques are that most fraud is discovered primarily in financial transaction examinations. Additionally, due to the relatively high costs associated with physical surveillance as a means of fraud prevention, these methods would not be practical or cost effective.

Discussion

Current models and methods of fraud discovery may prove insufficient in describing how organizational culture, organizational decision-making, and power relationships influence an individual's decision to commit fraudulent acts. Therefore, a more robust model is needed to describe macro-level antecedents of fraud that may be present within organizational environments.

A New Technique for Analyzing Fraud: Discourse Fraud Analysis

In this research, we propose a new technique for fraud analysis coined 'Discourse Fraud Analysis.' Discourse Fraud Analysis (DFA) is a broad-based disciplinary explanation that examines communications through the lens of perceptions, text, knowledge, and power relationships to explain contextual information. This technique provides forensic accountants

and auditors with: 1) a framework for better understanding the information they are sending and receiving and 2) a practical means by which to interpret the meanings of both spoken and written words.

The elements of DFA include:

- Expression in words;
- Using discourse (words) as power (influence) and knowledge;
- Influencing others with our discourse; and
- Analyzing discourse as it applies to forensic accounting professional relationships and social settings.

One of the first things to consider is power. In the context of DFA, power is defined as either:

- Legitimate power - Positional power given to an individual in an organization with a form of authority/visibility.
- Referent power - The ability to attract others and build loyalty. Not always obvious, but very powerful. Individuals want to imitate their leaders to demonstrate proper behavior.
- Expert power - Subject matter experts, rule makers.
- Reward power - CEO, CFO, COO, managers, and supervisors.
- Coercive power - Threats and punishments.

Power can be used to reward and to punish. Power influences others and can control what they will say and do. We cannot underestimate the amount of fraud individuals can commit when they are powerful with their words (discourse).

Powerful people may feel that they cannot lose or have little to lose if they are caught committing fraud because of their status or authority. Power, as a concept, can be expressed in a variety of ways. Power can be observed in expressive, confident, and demanding speech patterns. Moreover, individuals who demonstrate power may perceive they can break the rules and receive less of a penalty than others. They will often receive less punishment because of their controlling nature and influence. They may also have the ability to interrupt discussions, end discussions, and control conversations. As a forensic accounting professional, you should observe an individual's behavior to determine if they are attempting to control and/or manipulate others.

The Applicability of DFA for Forensic Accounting

Simply put, fraud rates continue to rise at an alarming rate. The U.S. Department of Justice– Securities and Financial Fraud Unit (2017) reports that corporate crime enforcement actions resulted in $3.8 billion in U.S. criminal fines, penalties, forfeiture, and restitution.

Therefore, additional methods for fraud prevention and detection are needed even beyond a basic proactive vs reactive approach. It is important to understand power relationships that may impact fraudulent action and redefine our understanding of current messaging regarding authoritative support and theories of fraud detection.

The occurrence of fraud can be defined as a situation where one person in a position of trust, who has a motive to commit fraud, determines that a lack of internal controls is present, and rationalizes actions to commit fraud. However, an understanding of how fraud proliferates in specific organizational environments is lacking from these types of micro-level definitions.

In light of this knowledge, one must consider:

- How is fraud perceived and normalized (normative behavior and absolute standards)?
- Is fraud an individual behavior? Is it influenced by others? Can it be a product of both?
- Should the scope of fraud analysis be expanded due to its complexity?

DFA provides a conceptual framework for understanding organizational antecedents to fraud. With the absence of absolute standards and the complexity of fraud in today's environment, models such as DFA are needed to better understand where and when fraud occurs.

Based on the described limitations of current methods of analyzing how organizational level fraud occurs, the following research hypotheses are proposed:

Research Hypotheses - Qualitative

R1: How does the proposed DFA analysis instrument compare with other instruments of its type?

R2: How do organizational culture, power, and politics influence structured and unstructured forensic interviewing within corporations?

R3: How can the use of contextual information obtained from discourse analysis techniques assist in providing a better operational picture for accountants and auditors?

Since few forensic analysis tools explore the various dimensions of why fraud occurs, research question 1 (R1) proposes a qualitative question to gather information regarding how the DFA instrument compares with forensic analysis tools currently being used for interviewing by forensic accounting professionals.

Research question 2 (R2) proposes that discourse relationships (i.e., the influence of organizational power, culture, and politics on criminal behavior) are needed to develop a comprehensive organizational level fraud risk mitigation instrument.

In research question 3 (R3), the benefits of discourse analysis are examined. Contextual information obtained through investigative interviewing techniques may prove valuable when the interviewing structure consists of the following preparation elements: 1) brainstorming; 2) observation; 3) advanced inquiry; and 4) investigative interview communication strategies.

DFA—Insights for Fraud Detection and Prevention

Fraud is not driven from financial pressures alone. Pressure to commit fraud may come from the desire to gain more power in the organization rather than just from a simple monetary issue or reason. Fraud may also be an act of revenge. In addition, the opportunity to commit fraud can come from social interactions and coercion. Fraud also can be a group (macro-level) problem.

For example, look at the classic fraud case study "Crazy Eddie." Crazy Eddie is mostly famous for the Panama Pump where the company took money it had skimmed, deposited it in Israel, then moved it to Panama and back to the U.S. as false sales, pumping up the stock prices to make money on a stock dump. But there is much more to this case study. According to Sam Antar, CFO of Crazy Eddie, the discount home entertainment retailer was crooked in even more ways. For example, when they advertised discounted prices on television commercials, they said, "Come to Crazy Eddie's with the best price and we will beat it." In other words, you had to come in to negotiate. Sam Antar said this tactic was used because Crazy Eddie's couldn't give you the best price right away—because there was no best price. This culture of dishonesty spilled over to overstating inventories, hiding losses, avoiding taxes, and even affected how employees treated each other and their customers. The culture at Crazy Eddie helped create fraud by making it acceptable.

Fraud Implications

Fraudsters create opportunity versus opportunity encouraging fraud. One intuitive perception is that the lure of opportunity entices a person to commit fraud. However, fraudsters may demonstrate character traits that are unique and should be further examined through conversational inquiry.

Fraud may be considered acceptable or even encouraged by certain groups within an organization. In a performance-based society, business executives encourage accountants and auditors to make the financial outlook appear as profitable as possible to obtain higher performance bonuses, bank loans for company growth, and to raise stock prices. In some cultures, bribing is also considered acceptable behavior. In the U.S., the use of bribes is an 'under the table' activity. However, in other countries, bribery may be viewed as 'over the table' activity. Additionally, kickbacks may prove to be considered the 'cost of doing business' within some cultures.

Due to the complexity of fraudulent behavior, no one linear method or system can produce consistent results. However, DFA may assist in expanding upon current methods of fraud analysis. Additionally, DFA assists in explaining complex relationships that stimulate fraud such as political influences, power usage, and contextual conveyance of information.

Fraud messaging and fraudulent actions can come from both the individual (micro-level) and the organization (macro-level). Macro-level analysis of organizational cultures themselves may prove very beneficial in detecting fraud.

The Impacts of Creative Accounting

Referred to as earnings management, creative accounting describes when executives put pressure on the accounting department and CFO to make the company's financial picture appear better than it is. Likewise, strategic plans can be made

to: 1) decide when and how to ship and sell items and 2) purposely delay revenue or expenses to make future periods appear more solvent by showing false growth rates. Moreover, incidents where organizational managers curve earnings and manipulate accounting data may prove to be more prevalent than expected. Additionally, since pressure from upper echelons of management may be encouraging this behavior, there may be a trickle-down effect, whereby fundamental ethics tend to dissipate.

As discussed earlier, accountants and auditors should examine the network of power. Individuals that engage in fraudulent behavior may choose to do so: 1) when individual anxiety sets in; 2) when individuals are left out of a group; or 3) when the loss of social acceptance takes place.

Other Interviewing Considerations

When interviewing people, consider asking them if they like the company they work for and what they think could be done better within the company. Also determine how the individual communicates about the company to others. Do they portray the company in a positive or a negative light? Do they demonstrate signs of loyalty in communication? Where do their loyalties appear to be placed?

It is important that employees are satisfied with their job, are appreciated in their respective workplaces, feel uniquely important, and have a sense of personal prestige. Communication that leads you to believe otherwise may be a red flag for attitudes that may promote fraud. In addition, some employees may want organizational acceptance. They may crave respect and may do whatever it takes to get it, even if it means the commission of fraud.

Executives and business owners focus a large portion of their time on job tasks and achieving their goals. They do not always stop to consider possible ethical issues that may arise within their organizations.

Organizational cultures that control and dictate employee choices may also see more fraud. When corporate self-image is lost, fraud may increase. This behavior may be seen when an employee demonstrates a grandiose perception of himself or herself as compared with others.

Abuses of Power

Powerful people who set the tone within their organization may not always follow it. These individuals may believe they are above the law and behave in a manner that is incongruent with the values and morals they espouse. Additionally, the tone at the top can tell a lot about an organization. You should pay careful attention to how individuals socialize with others and the words they use to express themselves.

Thinking Outside of the Box—The DFA Approach

Forensic accounting professionals should consider the various organizational dimensions of how and why fraud occurs. If these individuals focus solely on opportunity, motive, rationalization, and capability as reasons for fraud, they may be limiting themselves from discovering the existence of other possible antecedents to fraud. Maintaining an effective internal controls framework and structure requires these professionals to be sensitive to other organizational influences. Profiling an organization's culture, coupled with an examination of individual behavioral characteristics, may prove a prudent strategy toward mitigating some of the risks of the occurrence of fraud.

Forensic accountants and auditors can learn to hone their observation and inquiry skills to assist in this examination.

Practical Considerations for Forensic Accounting Professionals from Dr. McHone

One of my first jobs was an internal auditor with the government, where I audited departments, agencies, courts, judges, and political officials. When I first started as an internal auditor, one acting audit chief told me that he had become so good at examining behavior he could just talk to a few folks, ask some specific questions, listen, and walk out the first day in a matter of a few hours with most of his major auditing findings. My response, which I did not vocalize, was "I don't think so."

I am one to listen and learn from others, and he seemed eager to prove his point and train me, so I watched, learned, and started to do what he did. His methods worked. The longer I did them, the better I got. After a couple of years in the field, I was able to get most of my audit findings in the first day. I learned many lessons from my early days as a government auditor.

Factors Influencing the Commission of Fraud

Fraud is not always committed at the individual level. Most of our current theories and methodologies are based on the premise that one person is committing fraud most of the time. Though it may be the case in smaller organizations, for the most part, fraud involves more than just one person. Also, fraud may be spurred by influences within an organization's culture and their impacts on individual employees. DFA considers many dimensions of these organizational relationships and is derived from a variety disciplines including sociology, linguistics, auditing, criminology, and psychology.

The Enticement of Crime

The enticement of crime does not in and of itself create dishonesty. Rather, fraudsters may prove to have character flaws that make fraud appealing as a 'means to an end.' Since external factors may influence decision making, opportunity, while important, is not as powerful a motivator as motive.

Here are a few key items to reflect upon:

- The lure of opportunity does not always create dishonesty.
- Discourse may prove instrumental in detecting fraud.
- Simple processes often yield low results.

Monitoring for Fraud

Monitoring fraud at the individual level may not yield the best results. Thus, the fraud risk assessment scope needs to be broadened to include corporate culture and social normative behavior into fraud detection discussions.

Since regulatory loopholes and industry practices may produce fraudulent behavior in certain industries, one important question to ask is: Does an anti-fraud attitude in corporate governance and culture limit the occurrence of fraud, or is an overall pro-fraud attitude within organizations growing?

It Is Time for a New Approach!

It is difficult to develop an actual fraud risk assessment picture considering the various levels of individual and group perceptions. Current fraud risk assessments appear to work in explaining some fraud activities. However, companies cannot rely solely on internal control policies as their primary method of fraud deterrence. While good internal controls may be used to mitigate some risks, effective analysis tools are needed to best understand risk types to develop strategies to reduce them.

Because it takes special knowledge to commit fraud, internal control systems must identify possible loopholes through examination of conditions that may make the occurrence of fraud likely. When speaking with individuals, key questions should be asked to determine both organizational climate and employee attitudes. Additionally, these questions should specifically identify certain individual behaviors that may make the occurrence of fraud likely. Risk indicators should be developed to provide a more comprehensive method for determining this likelihood. Moreover, these indicators should be developed through more than just mere observations of individual behavior. Rather, questions should be asked that examine an individual's attitudes regarding the organization's culture, power structures, political influences, and other micro-level concepts.

Most companies experience fraud. Therefore, morality, along with social pressures and norms, needs to be considered. Thus, the development of comprehensive instruments to mitigate the risks of fraud should start with a comprehensive approach examining: 1) how fraud occurs; 2) the conditions that make fraud likely; 3) linguistic indicators of deceptive behavior; and 4) advanced inquiry skills.

Discourse Fraud Analysis Techniques

Brainstorming

Brainstorming is a key step in using Discourse Fraud Analysis. DFA is a process of listening, observing, and developing relationships and trust with the group you are analyzing. You may be asking yourself the question, what should take place in a DFA brainstorming session? The first thing needed is to quantify what the potential fraud is and the impact of the fraud on the organization. Secondly, you should examine as much evidence as you can before you meet with anyone to start the observation and inquiry process. Thirdly, you should learn as much as you can about the individuals that work for the

organization. Fourthly, you should learn as much as you can about the organization's culture. Typically, internal control questions are asked at the beginning before knowledge is gained.

Observation

Observation is one of the best approaches for forensic accounting professionals to discover fraud. We can obtain a plethora of useful information through observation. The question is: how do we properly observe when most people recognize who we are and why we are there? The first thing we can observe is the initial reaction individuals have when we enter a room and we make our first introduction. They say first impressions are lasting ones.

The eyes are the gateway to the soul. What is the first reaction you receive? Is it a feeling of being welcome or of standoffishness? Who makes eye contact with you and who does not? Do they smile or look the other way? Do they posture in the sense they exude a sense of authority or seem territorial? Do they look like they want to say something or talk? You can tell by observing and even listening if someone approaches you. The key here is for you to look friendly, fair, and approachable. Conversely, it is their first observation and impression that can set the stage for how well you can discover information. In some cases, the guilty will want to talk to you and develop a rapport. You should be aware of this angle. The guilty may want to establish a power relationship with you and provide information that either justifies their circumstances or clears them from any perceived wrongdoing.

Advanced Inquiry

Advanced inquiry can lead to a lot of pertinent information. It is not uncommon for fraudsters to tell you they are honest and that they can help you apprehend the 'real' crooks. Listen to their words and look into their eyes; you may have the ability to start reading people right away.

The first twenty or so words you transmit will often make or break the inquiry. In addition, the feeling the person gets during the first thirty or so seconds of the interaction will make a difference. Inquiries conducted in their office, workspace, or an area in the building that is comfortable and relaxing can yield positive results. In addition, properly structuring inquiries at a neutral location, properly laid out, can provide meaningful results.

Sit across from the individual. If there is another person in the room observing, such as management, sit them to your left at the head of the table so they are between you and the individual. Now the individual will see established authority to their right and you will appear more neutral. If there is another cohort or fellow employee in the room, set them to your right, placing you between the two employees and gaining the sense of you being part of the group.

Your first words could be as follows, "Hello, my name is _____ and I have been asked to look at the _____ of the company. There was some concern by management about balances in the _____ not reconciling correctly and I would like to ask for your help in getting the accounts in balance." In so doing, you have enlisted their help to solve the issue. How they react and how they want to help will provide you with valuable information on whether they are helping to get the issue resolved or using this as an opportunity to cover their tracks. Use the tools provided earlier in this paper. We will discuss this concept further in the remainder of the paper.

Components of Effective Investigative Communication

Key Terms

Linguistics

Linguistics is the scientific study of language. Two key points of linguistics are the following: language influences how we view our environment and how we interact with others, and language impacts the conscious mind, the unconscious mind, and our knowledge base.

Framing

Framing involves breaking communication into various elements such as broadcasting and messaging, the attending receiver, how the communication is delivered, speaking vs. writing, images that may come to mind, ethics, and morality. Framing can be either positive or negative. Framing communication in a positive sense yields better results. Negative communication usually results in negative responses.

Listening

According to Williams (2004, para. 1), when listening, "Almost everyone sincerely believes that he or she listens effectively. Consequently, very few people think they need to develop their listening skills."

Effective listening is a trained skill. Honing your listening skills can help you to overcome or reduce conflict, build trust, and better manage your engagements. Effective listening, when done correctly, can help to reduce the interviewee's anxiety, help you to become more approachable, and enable you to obtain more detailed information for your reports.

Relationship Building

The American Psychological Association (2018) posits that "the way we perceive ourselves in relation to the rest of the world influences our behaviors and our beliefs. The opinions of others also affect our behavior and how we view ourselves (para. 1)."

The most important single ingredient in the formula of success is knowing how to get along with people. —Theodore Roosevelt

Trust

Building rapport with individuals is an important facet of establishing trust. To build trust, it is important not to appear threatening, coercive, or unpleasant. Interviews that are confrontational from the onset rarely yield positive results. Rather, the person you are interviewing will likely become defensive, shut down, and refuse to cooperate any further.

Closure

When we think of closure, we gravitate towards the definition of putting an end to a certain event. In most cases it is something negative. However, closure has a broader definition. It can also be the process of including or excluding someone from a group so the group or an individual can maximize their benefits. For example, a group may single out individuals who are perceived as not wanting to comply with the group norm, often called social closure.

Discourse Fraud Analysis Techniques—A Practical Approach

The elements of Discourse Fraud Analysis place both macro and micro level emphasis on inquiry and the ability of forensic accountants to determine if an individual or group of individuals pose risk to the organization through fraudulent activity. Just as fingerprints and retina eye scans are used to specifically identify an individual, speech patterns and the use of words are also individual permanent markers. Thus, discourse is engrained in an individual's character. It is something to be analyzed and used to draw conclusions from.

Practical Tools for Analysis

Forensic accounting professionals need practical tools they can use to assist them with their engagements. Fraud and audit risk assessment programs do not adequately describe what type of questions to consider when analyzing an organization from a fraud perspective. Additionally, they rarely mitigate fraud since they typically use a basic checklist with limited questions. Therefore, robust auditing programs focused on how individuals communicate and relate to the organization they work for are needed.

Conclusion

This research study proposes a new technique for forensic analysis of micro/macro-level fraud risk indicators within an organization–Discourse Fraud Analysis. The analysis tool provided in Appendix A may be used as a tool to guide a practitioner though a forensic interview while capturing important contextual information. Through observational analysis, the forensic accounting professional may classify if the individual and the organization itself have a low risk, moderate risk, high risk, or extreme risk of engaging in fraudulent activities.

In the next stage of this research, an expert panel will be utilized to assess the suitability of the DFA instrument to capture relevant indicators of micro and macro antecedents to fraud. The expert panel will consist of industry professionals from a variety of sectors including: 1) state government; 2) federal government; 3) the military; 4) academia; and 5) corporate America.

In a constantly evolving and rapidly changing society, uncertainty may prove to promote strain. Likewise, strain may stimulate conditions that promote the occurrence of deviance. Discourse fraud analysis may assist in assessing environmental and cultural conditions that may be indicative of deviance. Thus, conditions that promote deviance that lead to crime, may be more readily recognized within the context of an organization or agency.

DFA is a new paradigm aimed to help further analyze the aforementioned relationships. Moreover, DFA provides a tool for delineating the nature of individual, social, cultural, political, and power relationships and the importance of contextual understandings between and among them. Thus, DFA has relevance in further examining auditing engagement environments, forensic accounting situations, and explaining corporate cultures.

Scoring Matrix

The next page features a scoring matrix that can be used at the individual and macro levels to determine the density of fraud risk based on DFA conditions and criteria. The description section of this document is provided as a sample and may be modified for your use. The objective, source, and scope are provided to assist you in conveying the purpose for the use of this document. Scoring instructions for the document are located toward the bottom of the page. At the very bottom of the page, conclusion and recommendation sections are available to report on relevant interview findings.

Appendix A

The ABC Company, Inc.
Discourse Fraud Analysis Scoring Matrix: (Post interview and analysis)
As of May 21, 2018

Objective:

To determine through Discourse Fraud Analysis if the company is at risk for fraudulent activity.

Source:

Executives, management, and employees of the company.

Scope:

Prepare a scoring matrix based on DFA conditions. Each attribute will receive a score of 0, 1, and 2 indicating the likelihood of the company experiencing the condition or not experiencing the condition. A scoring matrix should be prepared for (a) each individual (Individual) and (b) the company itself (Group).

Combine the individual scores of the individual with the group's macro level result.

The overall total score will be the total score combined (Individual + Group = Overall).

Rank the overall scores in descending order.

ENTER THE FOLLOWING BESIDE EACH STATEMENT:

0 = No
1 = Could not be determined
2   =   Yes

GROUP—MACRO LEVEL QUESTIONS	SCORE
Based on observation and inquiry, does the company have power groups?	0
Is management abusing the legitimate authority of their positions (legitimate power)?	0
Is loyalty to individuals more important than loyalty to rules and policies (referent power)?	0
Are experts withholding important information from their employees (expert power)?	0
Are rewards and incentives lacking (reward power)?	0
Are threats and punishment frequently used (coercive power)?	0
Is the tone at the top aggressive?	0
Is acceptable behavior not defined and communicated in/by the company?	0
Were you unable to socialize and get to know the group?	0
Were you unable to determine the ethical values of the group?	0
Did you discover any opportunity for collusion?	0
Are absolute standards lacking within the company?	0
Does the company control employee choices or dictate self-image?	0
Do the rule makers in the organization appear to influence behavior?	0
Does the C-suite executives' behavior towards fraud prevention seem to be a low priority?	0
Are there any performance based or incentive compensation programs?	0
Does the company have creative accounting?	0
If you were a fraudster, would you be able to get away with fraud?	0

Do the standards of the group not align with the standards of the individual?	0
Does it appear the social standards/expectations of the group do not match with the individual's behavior?	0
GROUP SUBTOTAL (Total Possible: 40)	**0**

INDIVIDUAL—MICRO LEVEL QUESTIONS	**SCORE**
Does it appear this individual is framing his/her words?	0
Was it difficult for you to get to know the individual?	0
Were you unable to get the person to like you?	0
Were you unable to develop trust when interviewing?	0
Do you feel you were unable to convey that you are helpful?	0
Were you unable to determine the ethical values of the individual?	0
Does the person provide lots of details when interviewing?	0
Is the person defensive regarding follow-up questions?	0
Does the person demonstrate a confident ego?	0
Is the person a conversation controller?	0
Does the individual appear to need or desire social acceptance?	0
Did you discover an attitude of revenge?	0
Was the opinion of the individual about the company negative?	0
Does this individual have questionable moral fiber?	0
Did you experience any difficulty talking to the individual?	0
Does this individual have special knowledge to make fraud happen?	0
Does the individual demonstrate too much or not enough eye contact when speaking?	0
What are the confidence levels in the person's speech?	0
Does it appear this individual considers monetary achievement one of their top life goals?	0
Does this individual exhibit ritualistic behavior?	0
INDIVIDUAL SUBTOTAL (Total Possible: 40)	**0**

GROUP + INDIVIDUAL TOTAL (Total Possible: 80)	**0**

SCORING INDEX

65-80 = Extreme Risk

47-64 = High Risk

24-46 = Moderate Risk

0-23 = Low Risk

Sample Conclusion (High Risk):

Based on the scoring matrix results, it appears the company has a high risk of fraudulent activity.

A forensic accounting analysis should be performed for the individual(s) and/or group identified as a risk.

Sample Recommendation:

We recommend the following DFA corrective measures to mitigate the fraudulent activity within the organization:

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