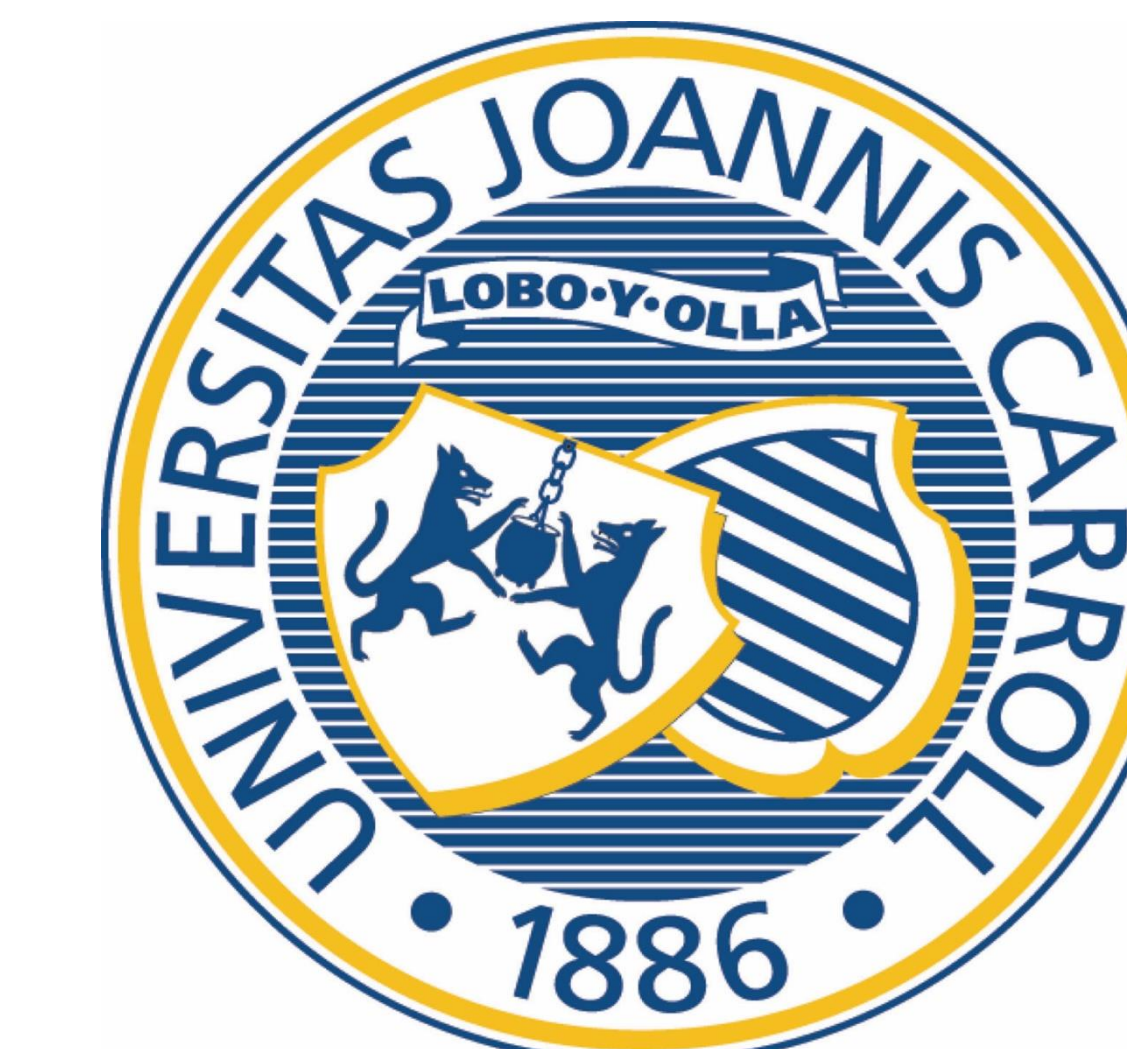


Relieving Pressure: Ethical Leadership's Never Ending Fight Against Fraud



Abstract

The Fraud Triangle identifies the three causes of fraud as Opportunity, Pressure, and Rationalization. In situations ranging from the Wells Fargo scandal to an overestimated expense report, Cynthia Cooper believes, "there will never be an end to Financial Fraud because there will always be a presence of each of the three threats." However, expertise in auditing and leadership that prioritizes ethical decision making, relieves pressure, and minimizes opportunities can limit the number and the size of fraudulent activities in financial reporting.

Fraud

There are two kinds of fraud, the misappropriation of assets (theft) and fraudulent financial reporting. However, in order for there to be fraud there must be intent and knowledge otherwise it is material misstatement. Don Dailey says, "Financial reporting takes a lot of judgement. Although certain estimations may seem unethical or risky, they are not always fraud." U.S. GAAP allows applications of rules that can allow a company to seem more profitable or incur less taxes than they should. "However, a company that takes every advantage of U.S GAAP to inflate earnings (see Figure 1) is risky for the auditor too. We don't want to work with a client that puts us in risk." The most common types of frauds seen by the professionals interviewed are the misappropriation of assets for personal gain.

The Auditor's Position- Minimize Opportunity

Auditors create, implement, and continuously test internal controls to minimize the opportunities to commit fraud. Dan Schrag says, "It's not that I don't want to trust employees but I don't want to be in a situation where I have to" Without the opportunity, people cannot commit fraud.

Figure 1

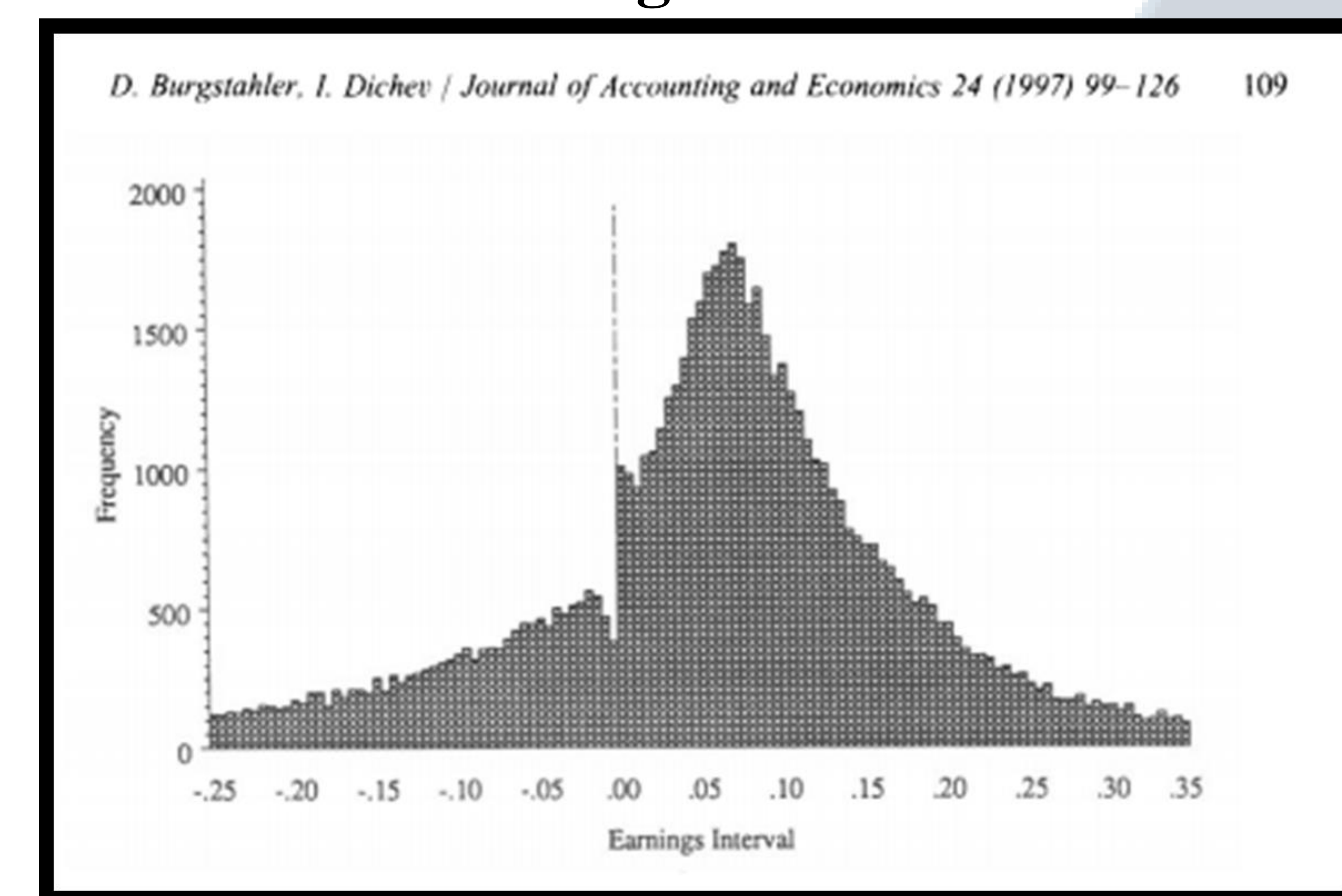


Figure 1: Shows earnings management for nonfinancial companies. Companies will change earnings by small margins to avoid 0 and seem profitable.

Steven Schmitz, Leadership Scholar 2017

External Audit Leadership



Don Dailey
Retired PwC
Managing Audit
Partner



Adam Morgan
Audit Senior
Associate
PwC



Cynthia Cooper
-CEO and Founder of CooperGroup LLP
-Whistle-Blower of Largest Fraud in Corporate History

Coleen Rowley
-Whistle-Blower of FBI

"It is so critical that companies promote a speak-up culture that encourages employees at all levels to make ethical decisions and to report concerns without fear of retaliation."
- Cynthia Cooper

Firm Leadership



Beth Esquerre
CFO of American
Society for Cell
Biology



Dan Schrag
Internal Audit
Director
Invacare

Pressure

Pressure is felt by all employees throughout the financial reporting process. Pressure often comes from unattainable goals and a culture with a lack of safety and hard competition. It can also come from a lack of ethical training by family, school and the company. On top of the categories in the Fraud Triangle, Cynthia Cooper says, "fear, pride, and greed also cause pressure for a company." A company that operates under high pressure is more likely to commit fraud. Similarly, Don Daily and Dan Schrag say they avoid firms that operate under such pressure, because it makes all financial reporting difficult in the future. Leaders should focus company goals on relieving pressure.

Personal Pressure

Pressure also derives from an employee's personal life, which causes the misappropriation of assets. This includes frauds such as overestimating time worked and overvaluing expense reports. Beth Esquerre says, "Some people come from poor financial situations that cause them to use the p-card for personal reasons" Although the pressure is difficult, it does not make it right in the common-good ethical approach. Employees should find a way to communicate situations to managers instead of making rash decisions.

Ways Ethical Leaders Can Relieve Pressure

- Defining strong core values that are communicated to employees throughout the organization
- Setting the right example and tone at the top of the organization
- Promoting the importance of ethics and ethical leadership
- Providing ethics training to help employees identify ethical dilemmas, understand the temptations and drivers that can result in unethical decisions, and think through dilemmas to make the right choices
- Helping employees develop ethical decision making models
- Building strong relationships with employees
- Setting clear expectations and ensuring that goals are not unrealistic, causing undue pressure
- Recognizing employees for ethical behavior and holding them accountable for unethical decisions
- Implementing strong systems of board and corporate governance, internal controls and anti-fraud programs
- Ensuring independent and properly resourced compliance and internal audit functions
- Developing and communicating codes of conduct
- Implementing a hotline and non-retaliation policy
- Ensuring that employee concerns are investigated promptly (Studies show that employees often do not report wrongdoing due to fear of retaliation and the belief that their concerns will not be addressed.)
- Ensuring that employees understand what steps to take if they have concerns or find themselves faced with an ethical dilemma