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Fraud Risk Factors In Business Companies: Identifying The Fifth Factor Of Fraud

Dr. Abdulruhman Alhares *

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□ ABSTRACT □

Starting from the last century and up to now, many studies were published in order to address the main causes of fraud. During their literary contributions, the researchers have introduced the auditing society with many theories about the fraud roots. The two most well-known theories was fraud triangle theory and the fraud diamond theory, and in the same context, This paper tried to figure out what might cause the fraud to be occurred. However, the concentration was on the causes that have not been tested yet.

The empirical study is consist of two stages. The first one is the interview stage, which has been conducted with two types of participants (auditors and bank managers). This stage was aimed to highlight the main causes of fraud in the business environment of countries that were subject to the study (Jordan, Lebanon, and Syria). all auditors have focused on the factors of fraud triangle when they were talking about fraud causes. On the other hand, the bank managers participants provide different picture about fraud causes. they spoke about fraud triangle factors in addition to, another factor, they called it power or influence, and this factor seems to be unique to the developing countries environment. They explained this factor from many sides, and this explanation helped in formulating the 10 red flags of the new factor.

The results of the interviews related to the power/influence factor have further tested using survey tool in the same countries. The respondents of this survey are practicing bank managers from banks in Jordan, Syria, and Lebanon. he participants were asked to indicate their opinion on the degree of importance of 10 red flags. the survey phase provides the statistical scale of each red flag, and it shows that the most important red flags were: 1- management failure to commit any investigation with suspect employees, 2- An employee in important position construct close relationships with parties in higher managerial level in the same company, 3- The ability of the person that construct close relationships with parties in higher managerial level to extend his relationships to low-level employees, to complete the fraud chain, 4- The company recruitment policy is subject to pressures from outside parties.

based on the relative importance of the power/influence fraud risk factor's indicators which was indicated by the participants in the survey and which hasn't been studied before, this study added the fifth factor of fraud and under the name of power/influence to the other four risk factors identified previously in the previous studies.

Key words: fraud triangle, fraud diamond, fifth factor of fraud.

* **Assistant Professor , Accounting , The Department Of Accounting, The Faculty Of Management Science, Al Rasheed International Private University For Science & Technology, Syria.**
abdulruhmanalhares@tishreen.edu.sy

العوامل المسببة للغش في شركات الأعمال: تحديد العامل الخامس للغش

الدكتور عبد الرحمن عمر الحارس*

(تاريخ الإيداع 15 / 8 / 2022. قبل للنشر في 30 / 10 / 2022)

□ ملخّص □

منذ بداية القرن الماضي وحتى الآن، تم نشر العديد من الدراسات حول الأسباب الرئيسية للغش. وضمن اسهاماتهم في هذا المجال، قدم الباحثون للمهتمين في تدقيق الحسابات العديد من النظريات حول جذور الغش. والنظريتان الأكثر شهرة هما نظرية مثلث الغش ونظرية ماسة الغش، وفي ذات السياق، تسعى هذه الدراسة إلى تحديد مسببات حدوث الغش. مع التركيز على الأسباب التي لم يتم اختبارها بعد.

تتكون الدراسة التجريبية من مرحلتين. المرحلة الأولى هي مرحلة المقابلة الشخصية، والتي تم إجراؤها مع نوعين من المشاركين (المدققين ومديري البنوك). وهدفت هذه المرحلة إلى تسليط الضوء على الأسباب الرئيسية للغش في بيئة الأعمال في البلدان التي خضعت للدراسة (الأردن ، لبنان ، سوريا). حيث ركز جميع المدققين على عوامل مثلث الغش عندما كانوا يتحدثون عن أسباب الغش. من ناحية أخرى ، قدم مدراء البنوك المشاركون صورة مختلفة عن أسباب الغش. حيث تحدثوا عن عوامل مثلث الغش بالإضافة إلى عامل آخر أطلقوا عليه اسم النفوذ/ قوة التأثير ، ويبدو أن هذا العامل فريد بالنسبة لبيئة البلدان النامية. لقد شرحوا هذا العامل من عدة جوانب، وساعد هذا التفسير في صياغة مؤشرات الخطر العشر للعامل الجديد.

تم اختبار نتائج المقابلات المتعلقة بعامل النفوذ/ قوة التأثير بشكل أكبر باستخدام أداة المسح في نفس البلدان. واشتمل المشاركون في هذا المسح على مدراء البنوك الممارسين من بنوك في الأردن وسوريا ولبنان. حيث طُلب من المشاركين إبداء آرائهم حول درجة أهمية 10 مؤشرات خطر. توفر مرحلة الاستبيان المقياس الإحصائي لكل مؤشر خطر، واستنتجت الدراسة أن أهم مؤشرات الخطر المدروسة كانت: 1- فشل الإدارة في إجراء أي تحقيق مع الموظفين المشتبه بهم ، 2- قيام موظف في منصب مهم ببناء علاقات وثيقة مع أطراف في الإدارة العليا في نفس الشركة، 3- قدرة الشخص الذي يقيم علاقات وثيقة مع أطراف في الإدارة العليا لتوسيع علاقاته إلى الموظفين ذوي المستوى الإداري الأقل بهدف إكمال سلسلة الغش، 4- تخضع سياسة التوظيف في الشركة لضغوط من خارج الشركة.

وبناءً على الأهمية النسبية لمؤشرات عامل النفوذ/قوة التأثير التي أشار المشاركون في المسح إلى أهميتها، والتي لم تدرس سابقاً في الدراسات السابقة، أضافت الدراسة العامل الخامس للغش وباسم النفوذ / قوة التأثير إلى العوامل الأربعة المدروسة والمحددة في الدراسات السابقة.

الكلمات المفتاحية: مثلث الغش، ماسة الغش، العامل الخامس للغش.

* **مدرس ، المحاسبة، قسم المحاسبة، كلية علوم الإدارة، جامعة الرشيد الدولية الخاصة للعلوم والتكنولوجيا، سورية.**
abdulruhmanalhares@tishreen.edu.sy

Introduction:

In 1953, Cressey published his research in a book called "Other People's Money" which was the first emerge of "fraud triangle theory". Since that date, researchers were concerned with three fraud risk factors, which constitute the fraud triangle. These factors are incentive/pressure, opportunities, and attitude/rationalization. Therefore, the fraudster should had the opportunity to perpetrate fraud, perceived a non – sharable financial need (pressure), and he/she should be able to rationalize the fraudulent act as being consistent with his/her personal code of ethics.

In 2004, Wolfe and Hermanson introduced the "Fraud Diamond Model", they presented another side that extended the fraud triangle which is "the fraudster's capabilities". They believed that many frauds would not have occurred without the right person with the right capabilities implementing the details of the fraud.

This study aims to add another fraud risk factor called "Power/Influence" that has been missed in the previous fraud studies. This factor exists mainly in the developing countries, which its governance practices and law structure need to be improved more, comparing with the developed countries. This factor has addressed with its related red flags using both interviews and questionnaire.

The rest of the research will discuss the fraud risk factors; highlight the gap, and trying to fill the gap with the new factor using qualitative and quantitative research too.

Importance and objectives of the research:

Many theories discusses the fraud phenomena. These theories did not differentiate in their conclusion between developed and developing countries and the majority of them were conducted in the developed countries environment. Based on the structural differences between these two types of countries, such as legal and governance practice, the causes of fraud maybe different. Therefore, the importance of this study come from its striving to address any possible fraud risk factors specific to the developing countries environment and its related red flags if exist.

Research problem:

The problem of the research can be addressed by the following questions:

- Are there any fraud risk factors which are just related to the developing countries?
- If exist, what are the new fraud risk factor's red flags?

Research methodology:

The research methodology is based on two methods, The first one is the interview method that has been conducted with two types of participants (auditors and bank managers). This stage aimed to highlight the main causes of fraud in the business environment of countries that were subject to the study (Jordan, Lebanon, and Syria). All the fraud risk indicators which can be attached to the unique factor called power/influence were tested further in the second method. The second one is the survey method that targeted the Practitioner banks managers, in order to test the relative importance of the 10 red flags related to the new risk factor revealed from the interview stage.

Prior research

American Institute of Certified Public Accountants AICPA issued a Statement on Auditing Standards (SAS) 99 entitled Consideration of Fraud in a Financial Statement Audit. the International Federation of Accountants (IFAC) issued International Standards on Auditing (ISA) 240 entitled The Auditors' Responsibility to Consider Fraud in an Audit of Financial Statements. Both statements have committed auditors to collect all the information

necessary to assess the fundamental distortions resulting from fraud. Besides, the statement of auditing standards (SAS 99) recommend that the auditor should apply his professional judgments in determining the characteristics of fraud, according to the following:

1. Fraud type: includes fraud resulting from fraudulent financial reporting and fraud resulting from misappropriation of assets.
2. The possibility of fraud: the possibility of fraud is determined by searching in its ability to cause significant material misstatements.

Previous studies have varied in terms of dealing with the subject of prevention and detection of fraud, some of them were concerned with studying fraud risk factors such as (Smith et al., 2005), (Lou and Wang, 2009), (Abdul Majid & Tsui, 2001) and (Alhares, 2014). On the other hand, some studies have focused on studying the auditing procedures that were used in order to stand on the possibility of prevention and detection of fraud. As an example, the study of (Moyes & Hasan, 1996), had focused on verifying the importance of the 218 factors that are related to fraud detection auditing process, which includes auditor's experience, educational background, and previous audit firm experience in fraud detection. In the same context, the study of (Ansah et al., 2002) made a presentation on the advantages and disadvantages of using fraud red flags as a function of indication and prediction of fraud.

Some other studies have focused on the development of fraud prediction models, such as the study of (Lenard & Alam, 2009) that conducted a theoretically review to the literature to gain an understanding of various bankruptcy and fraud detection models. The study concluded that the models, which detect bankruptcy, could also indicate a fraud. Besides, the study of (Abdullahi and Mansor, 2015) studied the both theories of fraud triangle and fraud diamond, and concluded that anti-fraud bodies have to understand clearly the fundamental elements that contributed to fraudulent act.

Many other studies had focused on different issues related to fraud, some of them aimed to assess fraud risk such as (Wilks & Zimbelman, 2002),and the others were interested in understanding the relationship between company governance and fraud detection such as (Saksena, 2003) ,while the study of (Shaub & Lawrence, 1996) was concerned with examining the role of auditor's professional skepticism in fraud detection. However, the most added value study was the study of (Wolfe and Hermanson, 2004) that has added new fraud risk factor (Capabilities) to the fraud triangle theory and turned it to be fraud diamond. After the study of (Wolfe and Hermanson, 2004) many studies tried to mimic their methodology in discovering another component of fraud causes. Such as the study of (Vousinas, 2019) argued that the fifth fraud risk factor is ego.

During conducting the study of (Alhares, 2014)[1], that combined qualitative and quantitative tools in order to investigate whether there is a statistically significant relationship between the fraud resulting from fraudulent financial reporting , fraud resulting from misappropriating of the company's assets and between the fraud risk factors of pressure, opportunities, and rationalizations that are existed in the Syrian audit environment. The Researcher has noticed from the interview stage that there was hidden factor other than fraud triangle factors and other than the newly added factor in fraud diamond theory. The hidden factor is related to the developing countries environment including (governance, business, and legal structure). This factor plays basic role in fraud occurrence; deter the possibility of its detection and correction.

[1] **Entitled "The Impact of Pressures, Opportunities and Rationalizations Indicators on the Measurement of fraud in The Syrian Audit Environment - Empirical study"**

This study is seeking to define this factor, address its conditions, and its related red flags. In order to achieve this objective, the qualitative (interviews) and quantitative tools (questionnaire) will be adopted; this stage will be discussed further through the empirical study
Before going into empirical stage, the fraud related literatures and theories will be discussed in the following.

Fraud definition:

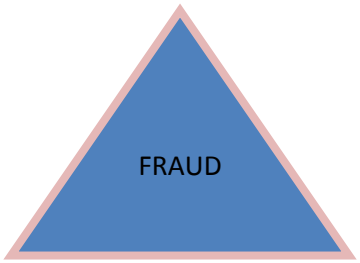
The fraud occurrence has been recently under much debate. Particularly, after the bankruptcy scandals of Enron, WorldCom…some of their heroes were big auditors (i.e. Arthur Anderson). This debate has led to new auditing standards and regulations (i.e. in the United States: the Sarbanes-Oxley Act 2002) targeting the need for investors, regulators and auditors to concentrate on preventing and detecting such fraud (Hegazy and Kassem, 2010). As such, different scholars have attempted to define the term Fraud (AICPA: SAS No. 99, IFAC: ISA No. 240, UK & Ireland: standard No. 240, ACFE, 2020, EY, 2009).
International Standards setters have pioneered defining fraud actions. SAS No. 99 defined Fraud as "an intentional act that results in a material misstatement in financial statements that are the subject of an audit". In the same sense, The International Standard on Auditing No. 240, issued by IFAC has also defined fraud as "an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage". Furthermore, According to the Association of Certified Fraud Examiners (ACFE), fraud is ‘deception or misrepresentation that an individual or entity commit knowing that the misrepresentation could result in some unauthorized benefit to the individual or to the entity or some other party’ (Ernst &Young, Detection financial statement fraud, 2009).
In conclusion, fraud is an intentional act by one individual or more among the entity, which results in misappropriation of assets and/or material misstatement in financial statement to gain unethical advantages.

Fraud triangle:

There are many conditions appear when material misstatements due to fraud occur (AICPA, SAS: 99). Cressey’s (1953) has concluded that frauds generally share three common traits. First, the embezzler had the opportunity to perpetrate fraud. Second, the individual perceived a non-shareable financial need (pressure). Third, the individual involved in a fraud rationalized the fraudulent act as being consistent with their personal code of ethics. Thus, Cressy concluded that a “fraud triangle”, consisting of incentives/pressure, opportunity and attitude/rationalization.
The profession standards provided a comprehensive explanation about its types, scope of influences and it gave examples about each one of them. For instance, SAS 99 stated that three conditions are generally presented when fraud occurs, first of all, management or other employees have an incentive or are under pressure, which provides a reason to commit fraud. Second, circumstances exist, for example, the absence of controls, ineffective controls, or the ability of management to override controls that provide an opportunity for a fraud to be perpetrated. Third, those who are involved are able to rationalize committing a fraudulent act (AICPA, SAS: 99). In addition, (IFAC, ISA:240) has confirmed the previous explanation through reporting that both fraudulent financial reporting and misappropriation of assets could be the consequences of the fraud triangle fraud risk factors
In other words, the fraud triangle consists of three conditions generally present when fraud occurs and these conditions Incentives/Pressure, Opportunity, and Attitude/Rationalizations would be discussed further in the following chart and paragraphs:

The Fraud Triangle

Incentives/ Pressure



Opportunity Attitude/rationalization

Source: Center for Audit Quality (2010)

Incentives/Pressure:

(Okoye at al., 2009) has discussed pressure as what causes a person to commit fraud. Also, pressure can include anything including high medical bills and addiction problems etc. In addition, pressure mostly come from a significant financial need or problem. Often this need/problem is non-sharable in the eyes of the fraudster. That is the person believes for whatever reason, that his problem must be solved in secret. However, some frauds are committed simply out of greed alone. Moreover, Pressure can be either a positive or a negative force. When goals are achievable, pressure contributes to creativity, efficiency, and competitiveness. When pressure is transformed into an obsessive determination to achieve goals no matter what it costs, it becomes unbalanced and potentially destructive.

(Brennan&Mcgrath, 2007) have noted that there are motivating factors that could refer to the management involvement in the fraudulent financial reporting such as the compensation packages based on reported earnings, the desire to maintain or increase shares prices, the need to meet internal and external forecasts, the desire to minimize tax liabilities, and the desire to raise external capital cheaply. Besides, (IFAC, ISA: 240) has reported that Incentive or pressure to commit fraudulent financial reporting may exist when management is under pressure from sources outside or inside the entity to achieve an expected (and perhaps unrealistic) earnings target or financial outcome since the consequences of failing to meet financial goals can be significant. Similarly, individuals may have an incentive to misappropriate assets, for example, because the individuals are living beyond their means. However, pressures continues to be the major drivers of fraud and misconduct. In the KPMG 2008–2009 Integrity Survey, 59 percent of managers and employees acknowledged feeling pressure to do whatever it takes to meet business targets; 52 percent believed that they would be rewarded depending on results rather than the means used in achieving them; and 49 percent feared of losing their jobs if they fail to achieve their targets (www.in.kpmg.com).

In summary, incentives and pressures can come from both personal and organizational sources. The Personal pressures include: personal needs to meet material obligations or to fulfill various financial requirements.. On the other hand, the organizational pressures include various organizational goals that are impossible or even difficult to be attained.

Opportunity:

Even when pressure is extreme, financial reporting fraud cannot occur unless an opportunity is present. Opportunity has two aspects: the inherent susceptibility of the company's accounting to manipulation, and the conditions within the company that may

allow a fraud to occur. The nature of the company's business and accounting can provide sources of opportunity for fraud in the form of significant related-party transactions outside the ordinary course of business; a large volume of estimates of assets, liabilities, revenues, or expenses that are subjective or difficult to corroborate, some large transactions, especially those which are closed to period-end. The opportunity for fraud is also affected by a company's internal environment that is largely influenced by the entity's culture and the effectiveness of its internal controls. Strong controls can significantly limit possibilities for the manipulation of results or for fraudulent transactions. It is important to maintain a sharp focus on controls in both good and bad economic times. When results are strong and markets are up, there can be a tendency toward complacency with diminished focus on internal controls and reduced scrutiny of results. In tough economic times, companies trying to do more with less may cut budgets in areas that compromise the effectiveness of internal controls (Center for Audit Quality, 2010).

Moreover, (Okoye et al., 2009) have discussed opportunity as 'the ability to commit fraud. Because fraudsters don't wish to be caught, they must believe that their activities will not be detected'. Opportunity is created by weak internal control, poor management oversight, misuse of authority, and failure to establish adequate producers to detect fraudulent activity. From the three conditions, opportunity is the leg that the organizations have the most control over.

In conclusion, the opportunity to commit fraud arises mainly from the material weaknesses in the system of internal control and inappropriate company's governance structure. The Internal control weaknesses could be come from improper design of system of internal control and/or from failing to implement this system appropriately.

Attitudes/Rationalization:

(Okoye et al., 2009) has discussed rationalization, as 'a crucial component in most frauds. Rationalization involves a person reconciling his/her behavior (stealing) with the commonly accepted notions of decency and trust'. Furthermore, (Okoye at al., 2009) has noted that some common rationalizations for committing fraud are:

- The person believes that committing fraud is justified to save a family member or loved one.
- The person believes he will lose everything – family, home, etc, if he doesn't take the money
- The person believes that no help is available from outside.
- The person labels the theft as "borrowing" and fully intends to pay the stolen money back at some point.
- The person, because of job dissatisfaction (salaries, job environment, treatment by managers, etc), believes that something is owed to him/her.
- The person is unable to understand or does not care about the consequence of his activities.

Participants in the "Center for Audit Quality" discussions have noted that individuals who commit financial reporting fraud must be able to justify or explain away their fraudulent action. Typically, financial misstatement or manipulation starts small, intended as "just a little adjustment" to improve results. But as the need to maintain the deception continues, one misstatement leads to another until the perpetrator is locked in, lost objectivity, and heads down the "slippery slope" to commit major fraud. In addition, individuals who commit financial reporting fraud possess a particular mindset that allows them to justify or excuse their fraudulent actions. Therefore, personal integrity is critical in determining if an individual will be prone to rationalize fraud. However, as the pressure or incentive increases, individuals may be more likely to construct some rationalization for fraudulent actions. For instance, in an environment of extreme pressure to meet corporate financial

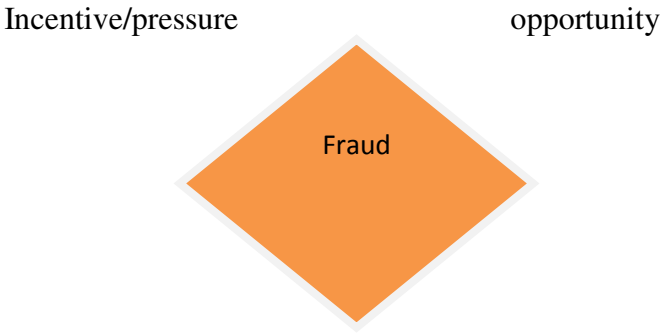
goals, members of management or other employees may conclude that they have no choice but to commit fraud to save their own jobs or the jobs of others, or simply to keep the company alive "until the turnaround comes (Center for Audit Quality, 2010)..

However, fraud triangle itself has been criticized as it missed an important component that is capability which will, therefore, turn the fraud triangle to the fraud diamond, and that is what will discussed in the following.

Fraud diamond:

(David Wolfe and Dana Hermanson have incorporated a fourth element (capability) into the fraud triangle. Thus, transforming the well-known fraud triangle, into the fraud diamond (Wolfe and Hermanson, 2004).

The Fraud Diamond



Source: David Wolfe and Dana Hermanson, The Fraud Diamond: Considering the Four Elements of Fraud, the CPA Journal, 2004

(Wolfe and Hermanson, 2004) have indicated that many frauds, especially some of the multibillion-dollar, would not have occurred without the right person with the right capabilities in place. Opportunity opens the doorway to fraud, and incentive and rationalization can draw the person toward it. However, the person must have the capability to recognize the open doorway as an opportunity and to take advantage of it by walking through, not just once, but time and time again. Accordingly, the critical question is. "Who could turn an opportunity for fraud into reality?" Using the four-element fraud diamond, a fraudster's thought process might proceed as follows:

- Incentive: i want to, or have a need to commit a fraud.
- Opportunity: there is a weakness in the system that the right person could exploit fraud is possible.
- Rationalization: I have convinced myself that this fraudulent behavior is worth the risks.
- Capability: I have the necessary traits and abilities to be the right person to pull it off. I have recognized this particular fraud opportunity and can turn it into reality.

In conclusion, the fraud diamond concept is more comprehensive than fraud triangle through incorporating the effect of capability factor as one of major fraud causes.

Results and Discussion:

1 The Empirical study

The empirical study is consists of two stages. The first one is the interview stage. which has been conducted with two groups of participants (auditors and bank managers). This stage aimed to highlight the main causes of fraud in the business environment of countries that were subject to the study (Jordan, Lebanon, and Syria). All the fraud risk indicators which can be attached to the unique factor called power/influence were tested further in second stage using the survey tool in the same countries. In the following, both sections will be discussed in further details.

1.1 The Interview stage:

The interviews will be presented in the order that cover all opinions achieved, with taking one or two opinions as an example, the emphasize will be on the ideas not on repeating the opinions which are talking about same idea.

The Interview stages was conducted within the following countries: Jordan, Lebanon, and Syria. With_two groups of participants (practitioner auditors and bank managers). a stratified sample of 50 participants (25 bank managers and 25 auditors) were chosen to conduct interviews with them. As the stratified random sampling involves dividing the entire population into homogeneous groups called strata (plural for stratum). Random samples are then selected from each stratum (Kalton, 2020).

The participant's locations were as follows (25 participants in Syria, 15 participants in Jordan, and 10 participants in Lebanon), Some of these interviews have been conducted through face to face interview and the rest using phones and videoconference applications through internet. The interview questions were as follow:

To the auditors: What are the main reasons or main causes of fraud in the most fraud cases you have faced during your past audit?

To the bank managers: what are the main reasons or main causes of fraud in your firm?

A brief of interview's main discussion and important comments will be presented in the following:

1.1.1 Banks managers interviews:

At first, the participants have been asked about their perceptions with regard to the fraud causes in their firms. A group of participants addressed the fraud causes as: (moral inferiority, financial pressures, material weaknesses in the internal control such as the absence of segregation of duties, and the independent checks and verifications).

Another group of participants discussed the fraud causes as fraud could be come from: (a person who has authority or influence in macro or micro environment, this person can commit fraud without a fear of discovering, a person who has his influences from having a strong relationships with parties in higher management level in the company or with parties in the board of directors, a person who has a bad reputation and his integrity under question for more than 3 years without investigating him, a person who has power will allow him to guarantee his employees loyalty, because those employees generally have two options: the first is to engage in the fraud acts and have their portion he second is to have fears about their profession continuity, a person under question is not being subject to investigation but also he may get a huge incentives, and recruitment policy deficiency, as it my subject to pressures from parties outside the company.

1.1.2 Auditor's interviews:

The auditors participants assigned fraud to the:

1. corrupted culture that pervasively invaded the community.

2. the huge number of family businesses in the local economy raise the fraud risk because in this kind of firms, the segregation between management and owners is unclear, and the hiring is done by the owner. Therefore, this type of firms have more exposure to fraud risk than corporations, which have strict rules to be followed.
3. when his annual incentive is linked to his financial results, then he could find himself in a situation that obliged him to commit a fraudulent financial reporting.
4. the significant deficiencies in the system of internal control lend aid to those searching about opportunity to commit the fraud.
5. the absence of segregation of duties could open the door to the fraudster
6. .the bad relationship between management and employee may let him to act in spirit of vandalism not just for personal gain but also simply for revenge.
7. when a manager refused to give an employee a loan or annual incentives, this encourages the employee to engage in wrong act because he thinks that he is just recover his rights".

In conclusion, from the previous discussion, the actual fraud causes in the business environment of development countries are different from the theoretical issues. Pressures/incentives, opportunities, and rationalization/attitude are the fraud risk factors of fraud triangle phenomena. If the capability factor added to the previous factors, we find fraud diamond phenomena.

It can be noticed that all auditors have focused on the factors of fraud triangle when they were talking about the fraud causes. Therefore, the impact of their education is clearly dominating their professional practices. On the other hand, the banks managers participants provide different picture about fraud causes. They spoke about fraud triangle factors in addition to another factor, they called it power or influence. This factor seems to be unique to the developing countries environment which they explained it from many sides. In the following this factor's nature and indicators will be summarized:

Factor name: power/influences

Factor nature is the circumstances in which the fraudster involved in a relationship with parties outside or inside the company that enable him to perpetrate fraud or prevent the in-charged parties from questionable him or making him subject to the accountability.

Factor indicators:

1- An employee in an important position construct a close relationships with parties in higher managerial level in the same company
2- An employee in an important position construct a close relationships with parties in the board of directors
3- An employee in an important position construct a close relationships with parties with higher managerial levels in the parent company, and this relationship become vital to both parties interests.
4- An employee in an important position construct a close relationships with outside parties that have an influence in the society.
5- An employee in an important position construct a close relationships with outside parties that have material impact on the company's internal environment
6- The existence of a person with honesty debates for more than 3 years.
7- The organization was failed to commit any investigation with this person.
8- The ability of this person to extend his relationships to low level employees, in order to complete the fraud chain.
9- Those low level persons achieving unjustified big benefits.
10- The company recruitment policy is subject to pressures from outside parties.

1.2 The survey Stage:

After introducing the new factor (and its indicators), which caused fraud though the interviews section, the survey section will be used to assess the relative importance of each indicators with regard to fraud occurrence. This study employed a mailed survey as a method of data collection. The mail questionnaire method allows for confidentiality, which encourage frankness and it is widely used in auditing research. The survey questionnaire was designed in similar manner to the questionnaire used in the study of (Smith et al., 2005) and Abdul Majid & Tsui, 2001).The respondents of this survey are bank managers of banks in Jordan, Syria, and Lebanon. The bank managers names were collected from all banks published annual reports in the stock exchanges in the three countries. A systematic random sample of those managers is taken. As A systematic sample is obtained by selecting a random start between 1 and k from a list of the population and then taking every kth element thereafter (Kalton, 2020). A Google form is used as a tool of communication, and this form was mailed to 100-bank manager. The follow up mails were sent after one week from the first sending date. The response rate was 60%.

The questionnaire consist of two parts:

- The first part collects demographical information
- The second part asks the banks managers about the degree of importance of the new factor “power/influence” red flags

The participants were asked to indicate their opinion on the degree of importance of 10 red flags on five point Likert-scale denoted by “1” very important to “5” not important at all.

1.2.1 The Statistical Tests:

The normality test to check the distribution of the data indicates that the distribution is not normal. However, The central limit theorem inform us that as sample size get larger than 30 we can make statistical inference from the data.

In order to determine the internal reliability of multi item variables, cronbach's alpha is used; this statistical measure showed 0.818, which means that the items that make up the scale are internally consistent.

1.2.2 Demographical information

Table 1 provides demographic information regarding the respondents

male		**Female**	**Total**
48		12	60
Less than 5 years experiences	**Between 5 and 10 years experiences**	**More than 10 years experiences**	**Total**
13	-	47	60
Fraud experience		**Non fraud experience**	**Total**
46		14	60

Respondent in this study comprise of 48 male and 12 female bank managers. a total of 13 bank managers have less than 5 years experiences, while all others have more than 10 years experiences. From the 46 bank, managers had come across fraud cases before, while the other 14 bank managers had never experienced any fraud case.

A descriptive statistic had used to highlight the relative importance of the red flags under test. As "1" indicates that the factor is very important and "5" indicate that the factor is not important at all, and three is the neutral point. The mean of the response used as a ranking

tool. Therefore, as a mean for each red flag come close to one, it is classified as very important, and as a mean for each red flag come close to five, it is classified as not important at all. The means of the red flags shown in the table no "2".

Table number (2)

No	(Power/influence) risk factors / red flags	Individual mean
1	The organization failed to commit any investigation with the suspect person.	1.77
2	An employee in an important position construct a close relationships with parties in higher managerial level in the same company	1.82
3	The ability of the person that construct close relationships with parties in higher managerial level to extend his relationships to low-level employees to complete the fraud chain.	1.98
4	The company recruitment policy is subject to pressures from outside parties.	2
5	An employee in important position construct a close relationships with parties with higher managerial levels in the parent company, and this relationship become vital to both parties interests.	2.03
6	Low-level employees achieving unjustified big benefits.	2.05
7	The existence of a person with honesty debates for more than 3 years.	2.07
8	An employee in an important position construct close relationships with outside parties that have an influence in the society.	2.08
9	An employee in an important position construct a close relationships with parties in the board of directors	2.17
10	An employee in an important position construct a close relationships with outside parties that have material impact on the company's internal environment	2.2
	Source: from survey analysis through Spss program	

Of the 10 new factor's red flags listed in the questionnaire, The table 2 shows that only 4 red flags have average mean between one and two (range from important to extremely important), and six red flags have an average mean between two and three (neutral to important). As shown in the table above all means come below three. Therefore, all red flags were considered important or more by the respondents.

Table "2" shows that the "management failure to commit any investigation with the suspect person was ranked as the most important red flags. With (mean = 1.77)". The second important red flag was "An employee in important position construct close relationships with parties in higher managerial level in the same company. With (mean = 1.82)". The third important red flag was "The ability of the person that construct close relationships with parties in higher managerial level to extend his relationships to low-level employees to complete the fraud chain with (mean = 1.98)". The fourth important red flag was "The company recruitment policy is subject to pressures from outside parties with (mean = 2)".

Regarding to the red flags that categorized as less important from the aforementioned red flags, (have a mean more than two)table "2" shows that the fifth important red flag was "An employee in important position construct a close relationships with parties with higher managerial levels in the parent company, and this relationship become vital to both parties

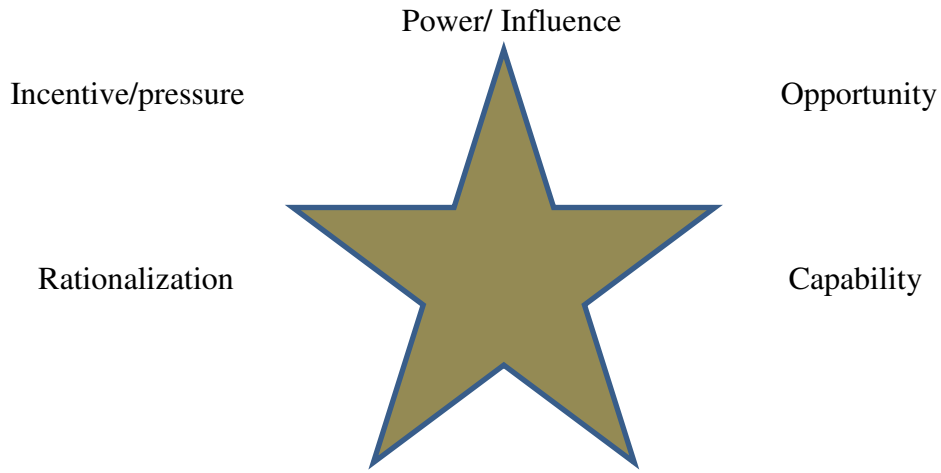
interests. With (mean= 2.03)". The sixth important red flag was "Low-level employees achieving unjustified big benefits. With (mean =2.05)". The seventh important red flag was "The existence of a person with a debates about his honestly for more than 3 years. With (mean=2.07)". The eighth important red flag was "An employee in an important position construct close relationships with outside parties that have influence in the society. With (mean=2.08)". The ninth important red flag was "An employee in an important position construct close relationships with parties in the board of directors. With (mean=2.17)". In addition, the tenth important red flag was "An employee in an important position construct close relationships with outside parties that have material impact on the company's internal environment. With (mean=2.2)'.

Fraud risk indicator check list:

Of the 60 respondent 52 have agreed that executive managers and auditors need to be familiar with the red flags tested in this study because of their possible indication of fraud.

Summary and conclusion:

This paper tried to figure out what might cause the fraud to be occur. However, the concentration was on the causes that have not been tested yet. The interview phase tells us what could cause the fraud from the participants' point of view; this phase gives the researcher another probable factor and its primarily related indicators "red flags". Furthermore, the survey phase provides the statistical scale of each red flag of this new fraud risk factor, and their relative importance to the auditors and to the executive management. However, in spite of the research limitations mentioned below, this research has tried to identify the missed fraud risk factor and the related indicators of this factor. In conclusion, the shape of new fraud risk factor has addressed by this research, and the five fraud risk factors could be presented as below:



Source: from researcher preparation

Comparison of the results with prior researches:

Previous studies have varied in terms of dealing with fraud issue. Some of them were concerned with prevention and detection issues, other studies have focused on the development of fraud prediction models and a few studies have concentrated on examining the possibility of expanding the fraud triangle theory as The study of (Wolf and Hermanson, 2004) did. On the other hand, the study of (Vousinas, 2019) added the term of ego as the fifth fraud risk factor, and back to the study of (Wolf and Hermanson, 2004), it

can be found that the term of ego is one of the explanation of the fourth element "capability". Therefore, the ego couldn't be considered the fifth element of fraud.

This study tried at first to ask practitioners about the main causes of fraud and about the red flags of each, highlighted if there are new causes or fraud risk factors other than the well-known fraud risk factors. It also asked about the relative importance of the new fraud risk factors' red flags. In conclusion, this study is similar to the study of (Wolf and Hermanson, 2004) in its effort to look beyond the fraud triangle theory.

Research limitation:

The findings of this study are subject to the normal limitations associated with mail survey. Additionally, the respondents in the survey phase were the bank managers only noting that not only banking sector suffered from fraud, but all other sectors do. Besides, the geographical limitation takes place here, Syria, Jordan, and Lebanon were the countries of this study. The previous limitations highlight the opportunity of further studies. Such as conducting similar studies in different countries or by searching for other red flags.

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