BRENTWOOD
OPEN LEARNING COLLEGE

Assignment Cover

Student Name:	Chidnand Harripersad
Student Number:	2347
Course:	Diploma in Forensic Accounting
Assignment NO:	Three

Marking Criteria:

We expect the learners to write minimum one well-expressed point in three lines against each allocated mark. This means one needs to write 15 lines with 5 well-expressed points to get high grades for a 5 marks question.
For high grades use examples and illustrations where appropriate.

Please insert your completed assignment (in Word format) here:

Chidnand Harripersad
Student Number: 2347
Assignment: 3

1. Give short answers to the following:

i. You are an investigative officer, how would you differentiate between high and low-level thieves

"I'm encouraging him to stay in school and go into white-collar crime."

(Studybay, 2017)

The above cartoon depicts one of the key differences between high-level and low-level thieves. Also, commonly referred to as white collar and blue collar criminals or crime. The father shows a fellow prisoner a picture of his son and sighs "I'm encouraging him to stay in school and go into white-collar crime." This cartoon illustrates one of the key differences between white and blue collar crime, and that is education.

(BOLC, 2017)Elaborates more on white collar crime. Frauds involving large sums of money are particularly committed by the following:

- long-term employees of the organization,
- high-income earners,
- males,
- people aged over 60,
- people with good educational backgrounds, the higher the level of education, the bigger the fraud,
- people working in collusion with other perpetrators,
- people who have never been subject to criminal charges.

It is far easier for a high-level manager or employee (who is educated) to steal (i.e., they will be in a position to bypass internal controls) as opposed to a low-level employee who usually steals small sums of money.
Blue-collar crime is any crime committed by an individual who comes from a low social class. When the father says, "I'm encouraging him to stay in school" it also infers that the father is uneducated and from a low social class. Interestingly enough, the father also seems to come across as justified (i.e., the committing of any crime is justified).
White collar crimes are characterized by higher payout and a greater level of difficulty, usually perpetrated by somebody who is highly educated, in authority or a position of

responsibility. White collar crimes are typically harder to prove and convict. "…go into white collar crime." said the father. The father is encouraging his son to pursue high-level or white collar crimes instead of the low-level (low payout) blue collar crimes that he committed.

"According to the Association of Certified Fraud Examiners (ACFE)'s Report to the Nations (RTTN), in 2008, executives stole an average estimated sum of £834,000 per fraud, managers stole about £150,000, and employees stole about £70,000. Although the amounts of money are greater at the higher levels, the incidents of fraud are more numerous at lower levels because of the larger number of employees at those levels" (BOLC, 2017).

Here'a comparison chart that illustrates the key differences between blue collar and white collar (Surbhi, 2015):

Comparison Chart

BASIS FOR COMPARISON	BLUE COLLAR	WHITE COLLAR
Meaning	A job that requires physical labor is known as a Blue collar job.	A job that requires clerical work is known as a White collar job.
Color of Attire	Blue	White
Place of work	Field or industrial location like factory etc.	Office
Job performed by	Workers	Employees
Remuneration	Wages	Salary
Basis of Payment	Hours worked	Performance
Requirement of job	Muscle power	Brain
Payment cycle	Daily	Monthly

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(Mark Born, 2017)

Another example of the difference between white collar and blue collar illustrated in the above advertisement. Although it many not be intended, the name of the restaurant may imply that only blue collar workers can only afford barbecue while white collar workers are privy to catering. Another point to note is the attire. The barbecue pig is in overalls, and the catering pig has a fancy bowtie. These are also mentioned in the comparison chart above.

To summarize (Henrickson & Sereebutra, 2012) differentiates between blue collar and white collar crime.The term blue collar crime was originally coined to mean those crimes committed by someone from the working or lower class of society. Today, blue collar crimes are typically those crimes that are considered to be fueled on by passion, rage or other emotions, as compared to those that are carefully calculated and executed. Crimes that cause injury to people or property, such as burglary or other property crimes, theft crimes, sex crimes, assault, and drug crimes are all considered to be blue collar crimes.

White collar crimes, on the other hand, originally referred to such offenses committed by individuals with a higher social status or upper-level occupation that often required them to wear a suit and a white collared shirt. In this day and age, white collar crimes are those crimes which are committed in a business setting and are considered to be non-violent. Some people refer to white collar crimes as "paper crimes." A few examples of white collar crimes include wire fraud, forgery, embezzlement and more.

ii. Give the profile of a typical criminal who commits more expensive fraud:

According to the Ethics Institute, (Minnaar, 2017) White-collar criminals do not commit the crime because of their social status, or because they are impoverished, but because they have the opportunity. Their planning and execution are very rational, leaving as few clues as possible. At times, white-collar criminals also become slightly irrational, such as when they have obtained the money and start boasting about their crime. No specific generic composition or social background can predict who will be a white-collar criminal. The most common denominator of all white-collar criminals is greed. Owing to a weak societal value system, many are trying to accumulate material things at almost any cost. Greedy people believe that everyone commits fraud in some sense. Greed affects all professional walks of life, including politics, medicine, the legal system and business enterprises. A sound reputation has become far less important than money because criminals have started falsely to believe that it is the only way to obtain happiness.

Fraud involving large sums of money according to (BOLC, 2017) are particularly committed by the following:

- long-term employees of the organization,
- high-income earners,
- males,
- people aged over 60,
- people with good educational backgrounds, the higher the level of education, the bigger the fraud,
- people working in collusion with other perpetrators,
- people who have never been subject to criminal charges.

(Toy, 2014)

Here is a profile of a typical white–collar criminal (BOLC, 2017):

- Is at least 30 years of age, or older
- Is more likely to be male (55%) than female (45%)
- Maintains the appearance of having a stable family
- Has above-average education
- Is less likely to possess a criminal record
- Is psychologically healthy
- Holds a position of trust in the organization
- Has detailed knowledge of accounting systems and the loopholes in them
- Has prior accounting experience

What Is White Collar Crime?

Sociologist Edwin H. Sutherland originally defined the concept of “white collar” crime in the late 1930s. He distinguished this type of crime from “blue collar” street crimes such as murder, rape, assault, arson, burglary, theft, and vandalism. For Sutherland, white collar crime is “crime committed by a person of respectability and high social status in the course of his occupation” (Sutherland, 1949).

White-collar criminals often are opportunists, who over time learn the can take advantage of their circumstances to accumulate financial gain. They are educated, intelligent, affluent, confident individuals, who were qualified enough to get a job which allows them the unmonitored access to often large sums of money. Many also use intelligence to con their victims into trust relationships, then exploit those relationships.

Sutherland, Edwin Hardin (1949). *White Collar Crime*. New York: Dryden Press.

(Ahonen, 2011)

The author clearly describes a white collar criminal to be the direct opposite of what we would normally deem to be a criminal but rather somebody who is sleek, charming, friendly and well educated.

iii. Define the term "calculating criminals"?

"In 1993, Medellin cartel founder Pablo Escobar was gunned down by police on the rooftop of his hideout in Medellin, Colombia. At the time of his death, Escobar was thought to be worth an estimated $2 billion, which he purportedly earned during more than a decade of illicit cocaine trafficking. His wealth afforded him a luxurious mansion, expensive cars, and worldwide recognition as a cunning, calculating and ruthless criminal mastermind". (Potter, 2007)

Calculating criminals tend to possess above-average intelligence, are well educated and tend to be repeat offenders. These types of criminals are risk-takers and lack empathy or anxiety.

As described by …" (Fimrite, 2014) during the court proceedings of Lamborghini thief Max Wade "…Wade, of San Rafael, sat impassively in Marin County Superior Court after prosecutors and the judge characterized him as a calculating, cold-blooded would-be murderer. Instead of showing emotion, he calmly asked Judge Kelly Vieira Simmons for permission to speak, then thanked her for giving him a fair trial.

According to Cleckley calculating criminals have the following Sociopathic Personality traits. He summarizes the material and provides a 'clinical profile,' describing 16 behavioral characteristics of a psychopath. (Cleckley, 2016)

- Superficial charm and good intelligence
- Absence of delusions and other signs of irrational thinking
- Absence of nervousness or psychoneurotic manifestations
- Unreliability
- Untruthfulness and insincerity
- Lack of remorse and shame
- Inadequately motivated antisocial behavior
- Poor judgment and failure to learn by experience
- Pathologic egocentricity and incapacity for love
- General poverty in major affective reactions
- Specific loss of insight
- Unresponsiveness in general interpersonal relations
- Fantastic and uninviting behavior with drink and sometimes without
- Suicide threats rarely carried out
- Sex life impersonal, trivial, and poorly integrated
- Failure to follow any life plan.

Calculating criminals defined:

Calculating criminals are predators. They tend to be repeat offenders; they have higher-than-average intelligence, and they are relatively well educated. They usually begin their careers in crime later in life than other criminals. These predators are generally inclined to risk taking, and they lacked inner direction, self-confidence, and self -esteem and were motivated by their desire to fit in and be accepted.

According to a 1993 study on Wall Street, insider trading scandals, conducted by a team of psychologists, the willingness of such criminals to commit crimes derives from "an external locus of control," which means that they lack self-esteem and confidence, and simply want to fit in with others. Their perception of success is determined by outsiders' opinions rather their own.

"Former hedge fund portfolio manager Mathew Martoma exits a New York federal court after being charged in one of the biggest insider trading cases in history on November 26, 2012, in New York City" (Byrne, 2014). "Mathew Martoma, the portfolio manager who worked for an affiliate of billionaire Steve Cohen's SAC Capital Advisors hedge fund firm, was sentenced to nine years in prison on Monday, one of the longest prison sentences ever handed out for an insider-trading conviction. The sentence, handed down by Judge Paul Gardephe in Manhattan, is the result of a series of terrible decisions made by Martoma, who is 40 and married with three young children. Earlier this year, a federal jury found Martoma guilty of getting material non-public information about the development of an Alzheimer's drug from a doctor and trading on the information to make more than $200 million in profits for SAC Capital and $9 million in bonuses for himself. (Vardi, 2014)

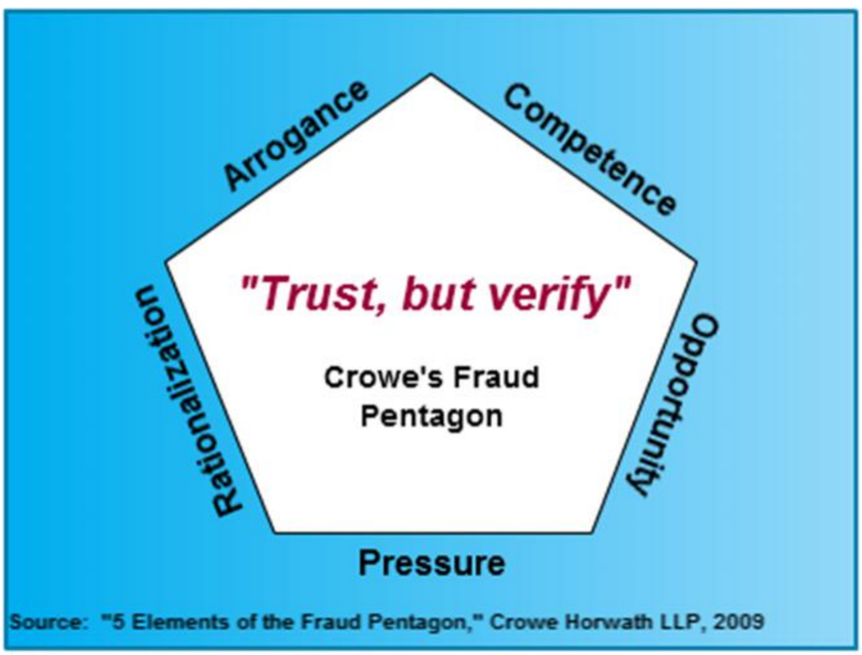
iv. What is the main difference between situation dependent criminals and power brokers"?

In Psychology and Personality of the Fraudster (Haruna, 2017) "An understanding of what motivates the fraudster, whether acting alone or in collusion with others within or outside an organization, can go a long way in identifying behavioral risk factors that may indicate fraud. Financial literature suggests that financial fraud is an inevitable feature of capitalism, in which the culture of competition promotes and justifies the pursuit of material self-inertest, often at the expense of others and even in violation of the law."

From the studies of psychology, the below two are general types of financial fraudsters have been observed:

- Calculating criminals: Criminals who want to compete and to assert themselves.
- Situational dependent criminals: Criminals who are desperate to save themselves, their families, or their companies from a perceived catastrophe.

The third type of criminal has emerged and are called power brokers. These power brokers are the arrogance and competence models of "Crowe Fraud Pentagon." In which Crowe added two models to the Fraud Triangle Theory. These five elements are Arrogance, Competence, Opportunity, Rationalization, and Pressure.



(Lillie, 2013)

Situation-Dependent criminals defined:

While situation-dependent criminals seemingly ordinary people who commit crimes without the intent to harm others. This is a key to understanding white-collar crime because almost all news coverage and much of the scholarly literature in the area focuses on “egregious” highly publicized, and largely atypical cases while the more common kind does not receive much attention. These categories of financial fraudster are still capable of doing great harm. (Haruna, 2017)

Power Brokers defined:

Nowadays, powerful corporate criminals, who hold high positions in the organization, possess the traits belonging to the previous two categories explained above, but they still form a separate category called the “power broker.” Although their characteristics might coincide with those of the situation-dependent and calculating criminals, their methods and motives are different. It is hard to believe that these business leaders, who are often heading highly successful enterprises, thought that they could obtain illegal benefits and make even more money at the expense of their organization’s finances and its human resources. Certainly, not all of them started their careers with the intention to deceive investors, stakeholders and their own employees and to steal from the organization. Not all of them are predators. However, their financial crimes are generated by a dangerous combination of predatory traits and their positions in the organization, which they can exploit.

Key differences between power brokers and situation-dependent criminals:

Situation-dependent criminals carry out their frauds with no intention to hurt. “A high-ranking executive of Westinghouse Electric Co, who was accused of price-fixing in 1961, was asked whether he thought his behavior was illegal. He responded: "Illegal? Yes, but not criminal. Criminal action means hurting someone, and we did not do that." (UKessays, 2015). While a key characteristic of a power broker is arrogance. “They, like other fraudsters, wrongly believed laws and rules do not apply to them. Fraudsters think they are smarter than everyone else. They never think they will get caught or be held accountable for their actions” Arrogance has been the downfall of many a fraudster. The late Leona Helmsley, who along with her husband Harry Helmsley ran the Helmsley Hotel empire, was called the ‘‘Queen of Mean.’’ Her arrogance and hostile personality were legendary. She was fond of saying that ‘‘we don’t pay taxes; only the little people pay taxes.’’ She falsely wrote off several million dollars in personal expenses as business expenses to fix up her lavish residence. She also extorted gifts and concessions from contractors doing the work. The tax fraud she committed was $8 million, which didn’t make sense since she was worth several billion dollars. She was greedy along with being ruthless and arrogant, and that contributed to her conviction in 1989”. (Biegelman, 2013).

v. What are the three situations that are usually present in fraud case according to the fraud triangle:

Although it is common knowledge that people and corporations commit fraud, it is not fully understood why they do it. Understanding the motive behind fraud is important in preventing it. (Anon., 2013). The Fraud Triangle framework developed by the famed American criminologist Donald R. Cressey in the 1950s (Cressey, 1972) in an attempt to help us to analyze as well understand the circumstances in which perpetrators commit fraud. (Albrect, 2014) Goes on to explain that Cressey developed his theory based on in-depth interviews with those convicted of trust violations. Cressey goes on to reiterate that "one must be in a position of trust before he can violate that trust" (Cressey, 1952) . He claimed that all the cases he studied conformed to the three-step process:

- Trusted persons become trust violators when they conceive of themselves as having a financial problem that is non-sharable.
- They are aware that this problem can be secretly resolved by a violation of the position of financial trust.
- They can apply to their contacts in that situation verbalizations which enable them to adjust their conceptions of themselves as users of the entrusted funds or property. (In other words, they are able to rationalize their dishonest actions, and so they are not — in their minds — inconsistent with their personal codes of conduct.)

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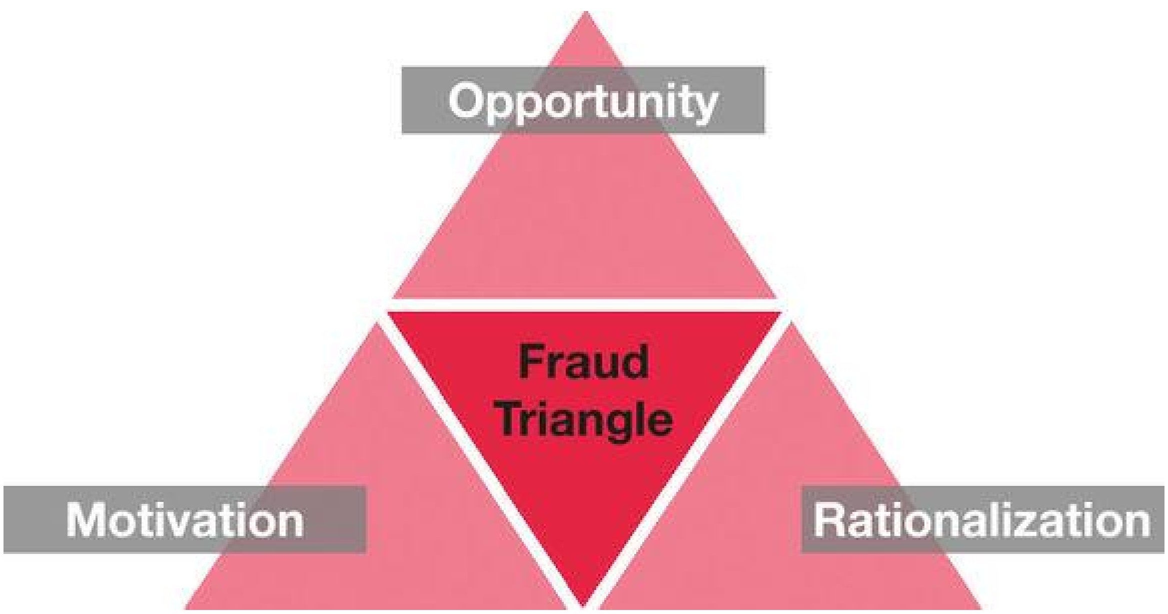

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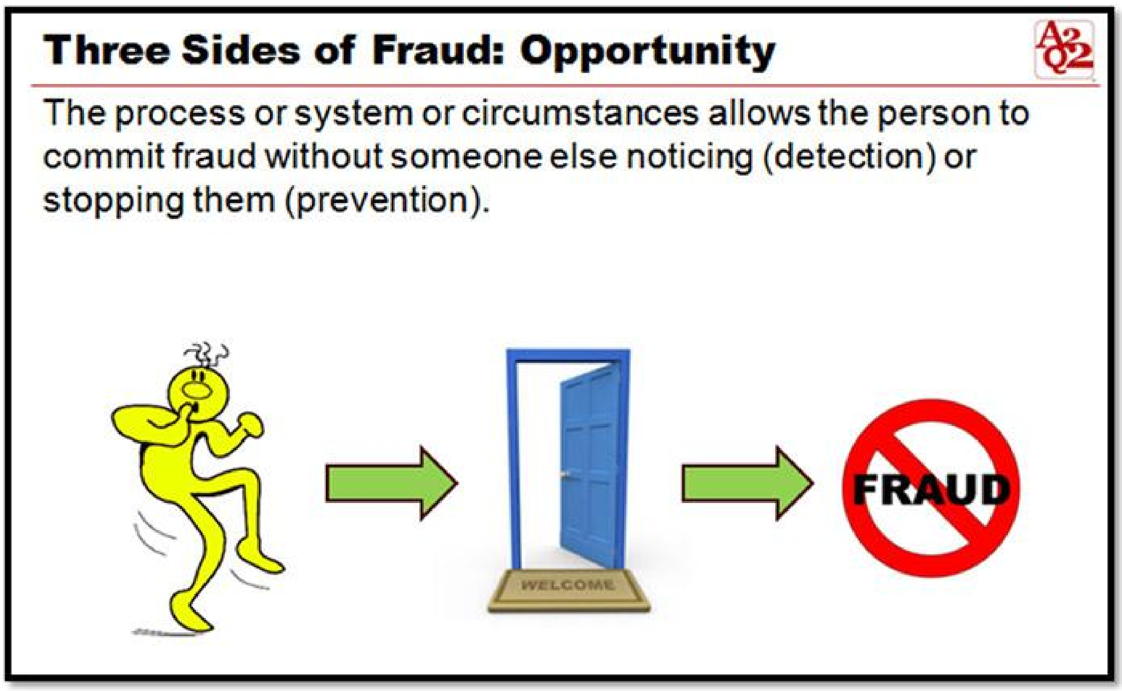
(Nondon, 2017)

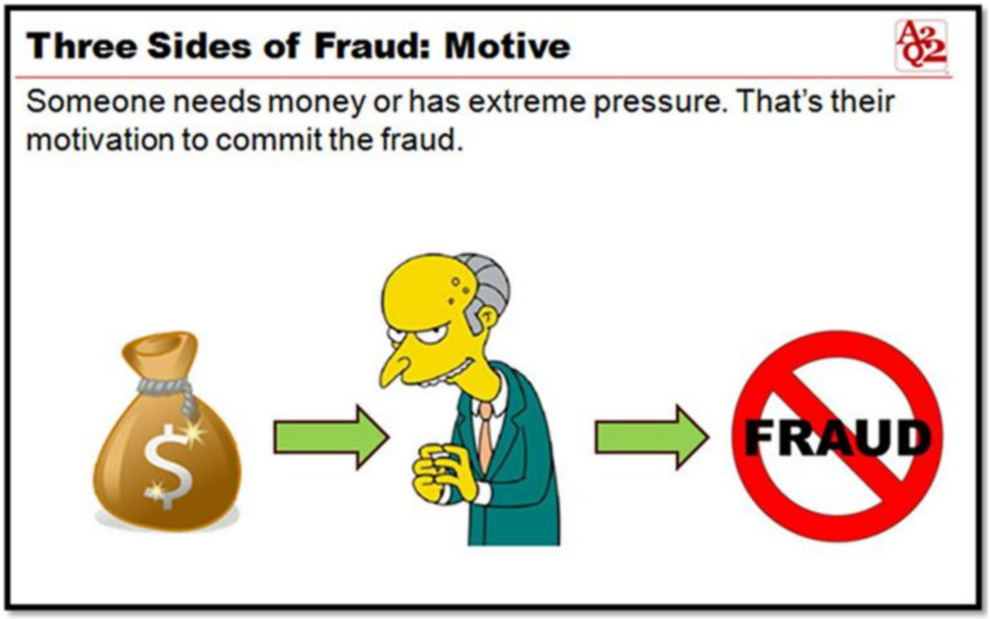
The Fraud Triangle illustrated above is also highlighted in Cressey book “Other people’s money: A Study in the Social Psychology of Embezzlement.” In which Cressey highlights the three situations that must be present to result in fraud.

- **Opportunity:**
  Opportunity is the ability to commit fraud. Because fraudsters don’t wish to be caught, they must also believe that their activities will not be detected. Opportunity is created by weak internal controls, poor management oversight, and/or through use of one’s position and authority. Failure to establish adequate procedures to detect fraudulent activity also increases the opportunities fraud for to occur. Of the three elements, the opportunity is the leg that organizations have the most control over. It is essential that organizations build processes, procedures, and controls that don’t needlessly put employees in a position to commit fraud and that effectively detect fraudulent activity if it occurs (General, 2015)



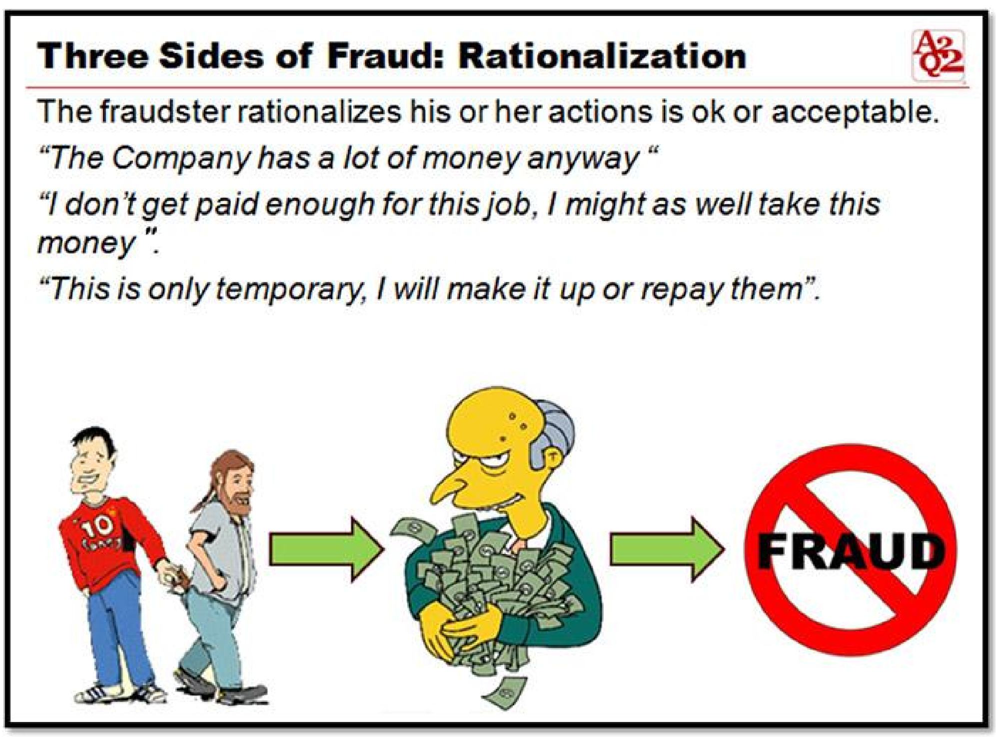
(AQ2Q2, 2015)

- **Pressure(Motivation):**
  Shah Rukh Khan in his blockbuster Bollywood Movie, “Happy New Year” said, “No motivation – no crime.” The motivation behind the crime and can be either personal financial pressure, such as debt problems, or workplace debt problems, such as a shortfall in revenue. The pressure is seen by the individual as unsolvable by orthodox, legal, sanctioned routes and unshareable with others who may be able to offer assistance. A common example of a perceived unshareable financial problem is gambling debt. Maintenance of a lifestyle is another common example. (Zone, 2017).



(AQ2Q2, 2015)

- **Rationalization:**
  The person committing the fraud sees an internal control weakness and, believing no one will notice if funds are taken, begins the fraud with a small amount of money. If no one notices, the amount will usually grow larger. (Otto, 2015)



(AQ2Q2, 2015)

<u>Fraud Triangle Analytics or FTA</u>:

We are working in tougher economics times. The need for tougher, more aggressive approaches to fraud prevention. Management has to rethink its approaches. Introducing, Fraud Triangle Analytics or FTA. FTA links electronic communications to the fraud triangle. So, how does this work? Libraries are created containing specific keywords that relate to incentive/pressure, opportunity, and rationalization.

Developing a keyword library for FTA

When building your keyword library around the Fraud Traingle, it's important to consider the type of fraud you're analyzing such as asset misappropriation, corruption, or financial misstatement Further, it s critical to incorporate industry and company-specific jargon, acronyms, and cultural slang that might he used within the specific group being analyzed- Global organizations might also have to develop language-specific libraries.

To get you started, here are some sample keywords for a corruption analysis:

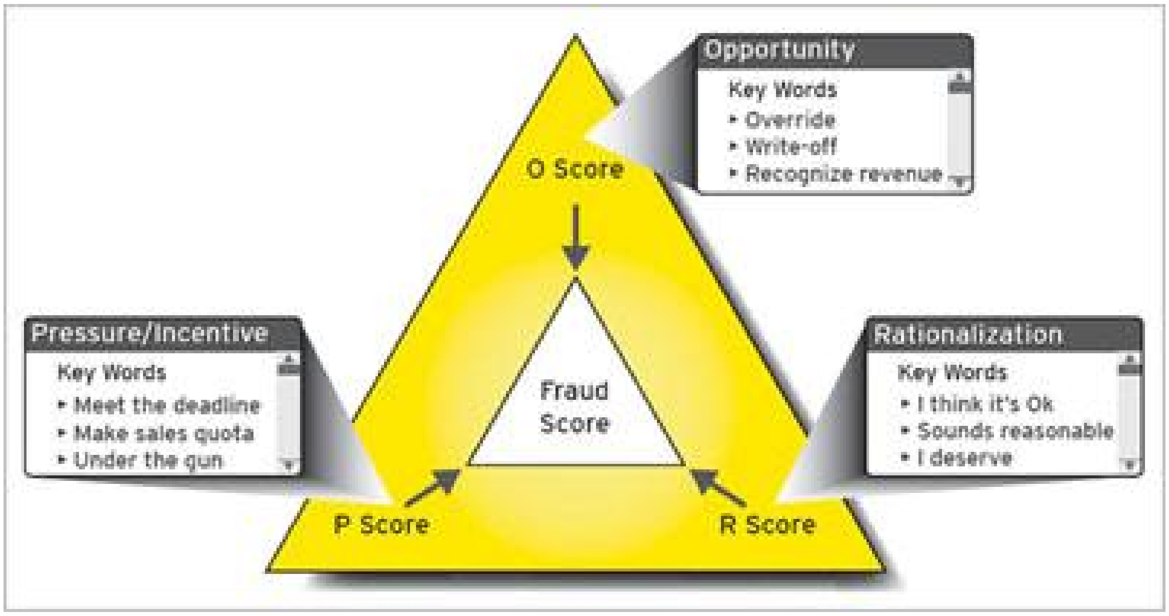
Incentive/ pressure keywords
meet the deadline, make the number, under the gun, make the deal (make the sale), under pressure, afraid, problem, just book it, lose my job, get fired

Opportunity keywords
cookie jar, facilitation fee, process fee, release expense, handover fee (or handover payment), hush money, improper payment, cash only, kick back, off the books

Rationalization keywords
everyone does it, it's the culture, trust me, therefore, they owe me, sounds justified, fix it later, nobody will notice, just an error, the boss told me to

(world, 2011)

FTA involves searching for the occurrence of those keywords within e-mail or instant message communications:



(world, 2011)

FTA is still in its infancy and will continue to gain in its popularity and adoptions because it attacks the status quo of traditional, document-intensive e-mail review projects and couples it with proactive anti-fraud analytics that relies solely on transaction data.

vi. Briefly describe the Gwynn Nettlers perception about employees lying, cheating and stealing:

Individuals have different needs and therefore different levels at which they will be moved to lie, cheat or steal. Lying, cheating, and stealing increase when people have great pressure to achieve important objectives; and the struggle to survive generates deceit (Nettler, 1982).

"You're right, the numbers don't lie.
That's your job."
(Cartoonstock, 2017)

Lying, cheating, and theft increase when people are under stress to attain important objectives. The struggle to survive leads to deceit. Individuals lie, steal and cheat on the job in a variety of individual and administrative situations. (UKessays, 2015)

The ways that are followed are:

- Personal variables
- Skills/abilities
- Attitudes/favorites

- Personal requirements/needs
- Morals/principles
- Organizational variables
- Type/scope of the job (meaningful work)
- Preparation/training provided
- Credit/acknowledgment system
- Significance of administration and management
- Clarity of duties
- Clarity of job-related objectives
- Interactive trust
- Motivational and moral environment (ethics and values of superiors and co-workers)
- External variables
- Amount of competition in the industry
- General financial conditions
- Social values (ethics of challenges and social and political role models)

The question arises; Why Do Workers Lie, Steal and Cheat on the Work? There are 25 reasons behind employee crimes that are looked by authorities in white-collar crime (criminologists, sociologists, psychologists, auditors, risk managers, police, and security experts):

1. The perception of being able to get away with fraud.
2. The desperate belief of an employee that he/she needs the stolen money or articles.
3. Frustration or dissatisfaction with the job, or with aspects of the job.
4. Frustration or dissatisfaction with personal life or with some aspect of personal life that is not related to the job.
5. An employee’s need to take revenge for being abused by the employer.
6. Failure of an employee to think about the consequences of being caught committing the crime.
7. The employee thinks that it is acceptable to cheat because everyone else is doing it as well.
8. The employee thinks that stealing will go unnoticed because the organization is too big to be affected by it.
9. The employee is having financial difficulties and feels compelled to steal.
10. The employee steals because he/she wants to beat the organization.
11. The employee was deprived of social or economic welfare during childhood.
12. Stealing/cheating is a mechanism to fill the absence of love, trust or affection in the employee’s personal life.
13. The employee is a compulsive thief.
14. The employee wants to harm the organization on behalf of a friend whom he/she feels has been treated unfairly, humiliated or abused.

15. The employee is lazy and does not want to work to fulfill his/her needs.
16. The internal controls put in place by the organization to prevent cheating or stealing are so weak that everyone thinks that it is easy to steal.
17. The organization has never punished or prosecuted anyone for stealing.
18. There is an absence of the fear of being caught because most thieves, are caught by accident and not by the audit.
19. Lack of counseling from the management regarding employees' personal or financial problems.
20. Not all employees steal for the same reasons. They face different situations and have different preceding conditions and motives.
21. There is a wide variety of reasons behind an employee's stealing or cheating.
22. Employees rarely face long prison sentences for committing fraud, stealing and embezzling from their employers.
23. Human nature is weak and vulnerable to criminal temptations.
24. In today's world, employees have weak morals and ethics.
25. Corrupt bosses set a bad example for employees, making them more likely to steal or cheat.

Laws must be sensible, fair in application and applied quickly and efficiently to be respected and obeyed. Company strategies that relate to employee honesty, like criminal laws, in general, must be sensible, reasonable, and projected to serve the company's best economic interests. The test of reasonableness for any company fraud policy is whether its terms are understandable, whether its punishments or preventions are appropriate to a real and serious matter, and whether its application is possible in a well-organized and legally effective way. (UKessays, 2015)

But what specific employee acts are serious enough to be prohibited and punished? Any act that could or does result in substantial loss, damage, or destruction of company assets should be prohibited. Having said all that, why is it that, despite the dire consequences of criminal behavior, we still see so much of it? Apparently, because the rewards gained often exceed the risk of apprehension and punishment; or, stated another way, because the pains inflicted as punishment are not as severe as the pleasures of criminal behavior. The latter seems to be particularly true in cases of economic or white-collar crimes. Many times, if not most, when a fraud is detected, the extent of punishment regarding the perpetrator is to be fired, sometimes without even paying back the fraud losses. So while potential white-collar criminals might believe they might get caught, the ramifications are below some acceptable threshold.

Are white-collar criminals more rational than their blue-collar counterparts? If so, they probably weigh the potential costs (arrest, incarceration, embarrassment, loss of income) against the economic benefit—the monetary gain from their crime. If the benefit outweighs the cost, they opt to commit the crime—not just any crime, but crimes against employers, stockholders, creditors, bankers, customers, insurance carriers, and government regulators. (Tommie W. Singleton, 2006)

The best fraud deterrence mechanism is simple: create the expectation in your organization that wrongdoers will be caught and that punishment will be swift and commensurate with the offense. The emphasis on expectation is important. It can be brought about in a number of ways. Effective training and education on the importance of ethical conduct, background checks on all employees, regular fraud audits by forensic accounting investigators, and a strong internal control system are among the means. To create that perception, employees must also be well aware that their activities are being monitored, and all employees with access to financial assets and transactions must have a healthy respect for the robustness of the control system. If employees believe they will be caught and punished for wrongdoing, that belief may be enough to keep them from adding rationalization to incentive and opportunity. (Ram, 2015).

Another fraud deterrent is core values. If a company implements its mission statement, such as “The Aggie Code of Honor which Aggies recite by heart: ’Aggies do not lie, cheat or steal nor tolerate those that do’ shows what goes to the heart of being an Aggie” (Leadership, 2017). There will be little or no room to commit fraud.

vii. What are the typical motivations for a white–collar criminal, which persuades him to commit fraud:

Edwin Sutherland coined the term 'white collar crime' in 1939. He defined it as "crime committed by a person of respectability and high social status in the course of his occupation." It is sometimes confusing when to differentiate between white collar crime and corporate crime. Both generally delve into the financial world where the motive is, simply put, financial gain. While not directly forms of violence, they are not victimless crimes, and in some cases, human safety and lives are jeopardized as a result (Brunet, 2017). Typical white-collar crimes could possibly include fraud, bribery, Ponzi schemes, insider trading, labor racketeering, embezzlement, cybercrime, copyright infringement, money laundering, identity theft, and forgery (Wikipedia, 2017).

Kinds of Rationalization:
White-collar criminals usually provide rationalizations for their crimes, rather than openly admitting that they committed the crime. Rationalization is the criminal's final step in completing his/her crime.

Some of these rationalizations typically include:

- "It was a loan, which I fully intended to pay back. I kept track of all my loans because I wanted to pay them back."
- "Accounting rules are confusing and open to interpretations. My financial transactions were completely acceptable according to accounting rules."
- "Why am I the only one being held accountable when my superiors have been doing it for years?"
- "It is common practice for people in this industry to take kickbacks. This is the reason I am not paid well by my bosses because they expect me to accept money and gifts on the side."
- "I deserve a raise in my salary because I am the hardest worker in the company. My boss would give me a raise, but then other employees would ask for it as well, so I am taking only a little bit."
- "What else should I do to provide for my wife and children? I do not get health insurance and my salary does not cover our expenses."
- "I did it to save the jobs of people in my whole division. If I had not made up a few accounting entries, the bosses would have known that we were not making budgeted profits and our whole division would have been fired."

(BOLC, 2017)

(Godoy & Gudenkauf, 2012)

One way to understand Toby's initial choice to lie on his loan application is to consider the cognitive frame he was using. Toby's sole focus was on making the best business decision, which made him blind to the ethics. We will never know what was actually going through Toby's mind, and the point of raising this possibility is not to excuse Toby's bad behavior, but simply to demonstrate in a small way the very uncomfortable argument that people can be genuinely unaware that they are making a profoundly unethical decision. It is not that they are evil — it is that they do not see.

Honest people who are contemplating fraud must also be able to justify their actions. Rationalizations can include feelings of overwork and lack of appreciation, a belief that they are acting in the best interest of their family, or intent to make restitution when they get back on their feet. These rationalizations allow fraudsters to knowingly and intentionally commit a dishonest act while still functioning in the workplace.

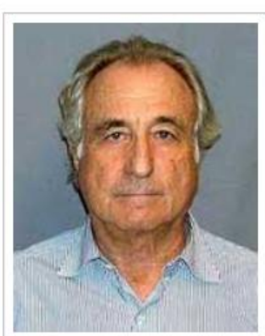
Motivations for Fraud:

For fraud to occur, the organization needs to give the person an opportunity, through poor segregation of duties or other weak internal controls, to commit the fraud. Ineffective or absent controls allow people to believe they will not get caught because no one will review their work or investigate anomalies. (Kuwik, 2013)

According to an article “The Psychology of Fraud” published in 2001, fraud “like other crime, can best be explained by three factors: a supply of motivated offenders, the availability of suitable targets and the absence of capable guardians-control systems or someone to mind the store.” (BOLC, 2017). Moreover, the financial aspect of a financial crime should not be ignored. Those individuals who commit white collar crimes do so for financial reasons (either fueled by survival instincts or greed) and companies commit crimes to grow, flourish and in some cases survive. (Brunet, 2017).

According to (Bucy, et al., 2012) White collar criminals generally, fall into two categories - leaders and followers. Leaders were motivated to commit white collar crimes for other reasons besides financial gain, money, and greed. These motives included ego or a sense of entitlement; the opportunity presented itself and even fear of being fired due to lack of performance or not wanting to lose their current lifestyle. Competitiveness for being the most successful was also a stated reason. The motives for followers, who take the lead from someone more assertive to commit a white collar crime, are understandably at least partially based on their more passive or conformist nature. Bucy et al. explain that followers may choose to participate in white collar crimes because they put their faith in their leaders, or alternatively they want a "piece of the action" to overcompensate for their sense of weakness and to raise their status. In some cases, followers may engage in work- or financially-related crimes because they fear there will be negative repercussions, such as being fired or having their health and safety threatened (Brunet, 2017).

Case Study



Bernard Madoff confessed to arguably the largest fraud or ponzi scheme in history. From 1990 (prosecutors say it may have started in the 1980s), Madoff eluded federal law enforcement authorities and his investors until he pleaded guilty to 11 felony counts in 2009. He essentially collected investments from companies and individuals and paid them off with others' investments rather than the profits. Those profits, estimated by Business Pundit to be nearly $65 billion dollars, Madoff pocketed himself. The results of his fraud included several investors losing their entire life savings and even one taking their own life. Madoff was sentenced to 150 years imprisonment and now resides at the Butner, North Carolina Federal Correctional Facility. "I am painfully aware that I have deeply hurt many, many people, including the members of my family, my closest friends, business associates and the thousands of clients who gave me their money," said Madoff in court, according to The Wall Street Journal (2009).

(Brunet, 2017)

2. **"The profile of a white-e-collar or blue-collar criminal is different from other typical street criminal' Discuss this:**

Profile of White Collar Criminal:

Sam Antar, Educator, forensic accountant, former fraudster

(Carolyn LaViolette, 2017)

Sam Antar is confident, forthcoming and intelligent. He passed the CPA exam on his first attempt with a 91 average and worked as a forensic accountant and a public speaker. He also helps law enforcement officials catch white-collar criminals. At face value, Antar appears to be a respectable, law-abiding citizen. However, if you think that, you do not know the real Sam Antar. In the 1980s, Antar masterminded one of the largest fraud schemes of the time. His family founded Crazy Eddie, an electronics retail store on the East Coast, and used it to conduct fraud. Skimming profits, underreporting income, securities fraud -- these are just some of the methods Antar and his family used over an 18-year span to deceive the public (Carolyn LaViolette, 2017)

Definition of White Collar crime:
White collar is a term used by society to denote professionals and those who perform administrative tasks. The term references the standard white collar of a dress shirt. White collar workers are typically skilled workers who perform creative and critical thinking tasks to resolve a wide variety of problems. White collar crime is a term that applies to a wide variety of conducts committed in such settings by such people. It includes certain nonviolent crimes like fraud, embezzlement, insider trading, and identity theft. (Aspen, 2013).

(Group, 2017)

Definition of Blue Collar crime:
Blue collar is colloquialism applied to positions involving significant amounts of manual labor. The term is typically applied to positions involving low skill levels and low wages, although not every blue collar position matches that description. As such, many people call criminal activities involving significant amounts of manual labor that are committed by indigent defendants “blue collar crime.” The characterization includes all violent crimes and a number of property crimes, including but not limited to assault, robbery, burglary and murder. (Aspen, 2013).

(CartoonStock, 2017)

White-collar Vs. Blue-collar Crimes

White-collar Crime	Blue-collar Crime
Types/Examples	
Illegal insider trading Bankruptcy fraud Insurance fraud Bribery Trade secret theft Antitrust violations Securities fraud Credit card fraud Internet/computer fraud Counterfeiting	Theft Burglary Robbery Drug abuse Gambling Physical assault Sexual assault Homicide
Motivational Factors	
Greed Financial gains Competition Fear of losing status and position	Addictions Financial greed Jealousy Peer pressure
Impact	
Loss of revenue Personal losses to victims Huge financial losses to investors Property losses Loss of services to customers	Physical and psychological hardships to the victims and their families Increasing insensitivity towards violence Negative influence on children
Punishments	
Long-term imprisonment Restitution Probation Community service	Community service Fine Short-term imprisonment Life-sentence Death Long-term imprisonment without probation

(Dasharathe, 2016)

Chidnand Harripersad
Student Number: 2347
Assignment: 3

Street Crime Vs. Blue-collar Crimes:

Intentional:
Street crime and white collar crime are both intentional and devise a plan to affect someone negatively.

Impact:
Street crime is more violent in nature when compared to white collar crime. However, white collar crime can have a more devastating effect financially and emotionally, when compared to the street crime which has similar effects but can also represent negative physical effects as well.

Socio-economic background:
Street crime offenders tend to come from a lower socio-economic status. Unlike most street criminals white-collar offenders are often employed and may have stable jobs.

Timing:
Street crime is intentional and most of the time well-planned ahead of time. The offender often targets the right victim who is vulnerable and defenseless; this assures the offender the victim will be submissive to their criminal act to avoid any potential harm to themselves. White collar crime is also intentional and takes place over a longer period of time. There could be several victims and several offenders taking place in white collar crime. However, the potential danger lies within financial constraints and emotional stability. In street crime, the danger can be physical, emotional, mental, and financial; results can end in life-threatening injury or death.

Social inequalities:
Social inequalities exist within street crime, white collar crime, and how the offender is prosecuted. Social class, gender, race, and ethnicity plays a large role in whether crimes are prosecuted fairly or whether the offender will receive a “break” and be let off the hook for the crime committed. Inequalities still exist in street crime and white collar crime, but both are equally harmful to society and present a danger to society. (Kelly, 2009)

(jokideo.com, 2017)

3. **Fraud is most common in organizations that have no controls, no trust, no ethical values, no profits and no prospects." Discuss this:**

Opportunity is the favorable circumstance that allows a fraud to occur. The degree of opportunity that a person has to commit fraud is usually determined by his or her position of authority in their company and access to assets and records. Poor internal controls contribute to opportunity and fraud. (Anon., 2013).

For fraud to occur, the organization needs to give the person an opportunity, through poor segregation of duties or other weak internal controls, to commit the fraud. Ineffective or absent controls allow people to believe they will not get caught because no one will review their work of investigate anomalies. (Kuwik, 2013)

Employees who are in certain positions of trust or who have extensive knowledge of organizational processes may become aware that they have an opportunity to commit fraud and avoid detection. For example, the Office of the Auditor General recently issued a report describing how a high school bookstore manager was able to take advantage of the district's lack of oversight, using her control over cash receipts and deposits to steal more than $70,000. Although public officials took action by contacting our Office when they suspected a problem, this fraud could have been prevented or detected earlier by restricting the bookstore manager's opportunity with certain controls and oversight. (General, 2015).

To detect and prevent fraud, the control mechanisms of organizations, suppliers, and contractors have a basic goal: feasible and cost-effective protection of the organization's assets against losses, damage or destruction. Cost-feasibility implies incurring minimal expenditure to ensure the maximum possible gains. The objective should be to strike a balance and not seek to enforce controls excessively. This balance is achieved after conducting a cost-benefit analysis of the introduction of new controls. While blind trust in the employees and lack of accountability may make it lucrative to commit fraud, a total lack of trust also breeds disloyalty and dishonesty. (BOLC, 2017)

Empirical evidence suggests that one of the most frequently observed factors in all frauds is the inability of the management to segregate duties and weak controls. These factors are very common in small businesses, which face a higher risk of fraud than larger organizations. This is because they usually have only one accountant who is responsible for all financial tasks; there is no division of duties, and no control mechanism. Moreover, fraud is more common in organizations that have no trust or ethics, poor management, negligible profits, if any, and no future prospect of prospering. (BOLC, 2017).

In our childhoods, we were taught that "honesty is the best policy", but in the real world that hardly ever holds true. History, statistics and human nature all point towards people's tendency to be dishonest and to cheat. Sometimes, even our society does not look down upon fraud in the same way as it discourages violence and bodily harm. Take, for example, Charles Ponzi of the infamous Ponzi scheme. Although he committed a fraud costing millions of dollars in losses, he is still celebrated as a folk hero among some people. Similarly, wealthy executives in the finance industry ‘get away’ with committing frauds worth millions of dollars and disrupting the lives of thousands of people when they receive light sentences in relatively comfortable prisons. According to some scholars, this tolerance of white -collar crime can be described as “a perversion of our general societal admiration for intelligence.” (BOLC, 2017)

In 1939, Edwin Sutherland’s White Collar Crime claimed that an individual’s personality did not make him/her more or less likely to commit fraud. He said that, rather than biological and psychological characteristics, an individual’s social circumstances and his/her social bond with the organization lead to economic crimes. Sutherland disputed the observation that crime was linked to one’s social class and said that financial fraud was more likely to be committed by socially well-adjusted people belonging to the upper class than by lower-class social misfits. (BOLC, 2017)

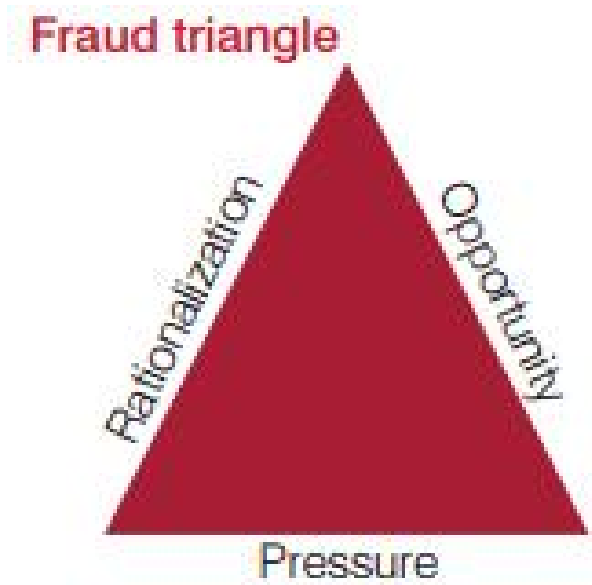
In the decades since White Collar Crime was published, studies have suggested that two major factors must be taken into account when analyzing the psychology of a fraudster:

- The individual’s biological characteristics (which can be of a wide variety).
- The individual’s social behaviour, which shapes how he/she behaves with other people.
- Psychological studies have provided two general profiles of typical financial fraudsters:
- Competitive and calculating criminals who want to assert themselves.
- Criminals who are desperate to protect themselves, their families and their organization from catastrophic situations.

Fraud deterrence:
Fraud deterrence is based on the premise that fraud is not a random occurrence; fraud occurs where the conditions are right for it to happen. Fraud deterrence attacks the root causes and enablers of fraud; this analysis could reveal potential fraud opportunities in the process but is performed on the premise that improving organizational procedures to reduce or eliminate the causal factors of fraud is the single best defense against fraud. Fraud deterrence involves both short-term (procedural) and long term (cultural) initiatives. (Wikipedia, 2017).

Fraud deterrence and fraud detection:
Fraud deterrence is not earlier fraud detection, and this is often a confusing point. Fraud detection involves a review of historical transactions to identify indicators of a non-conforming transaction. Deterrence involves an analysis of the conditions and procedures that affect fraud enablers, in essence, looking at what could happen in the future given the process definitions in place, and the people operating that process. Deterrence is a preventive measure – reducing input factors (Wikipedia, 2017).

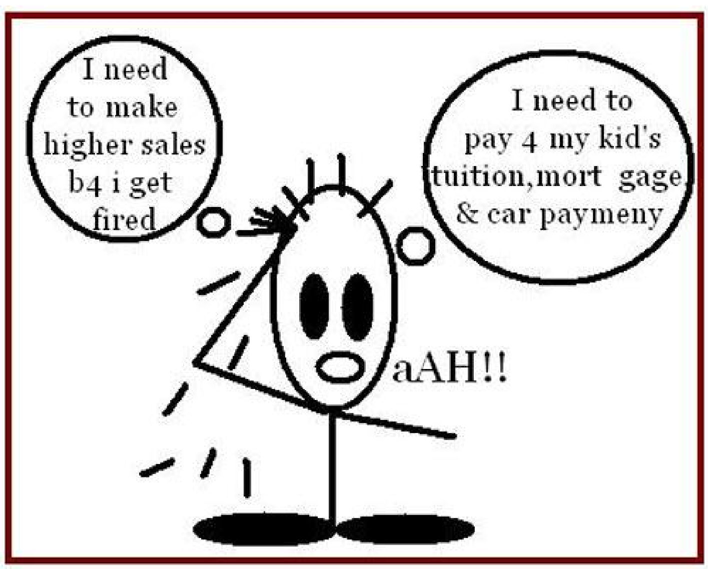
Fraud Triangle:
The causal factors that should be removed to deter fraud (as described above) are best described in the Fraud or Compromise Triangle. (Wikipedia, 2017)



(General, 2015)

- Motive (or pressure) – the need for committing fraud (need for money, etc.):

  Most people who commit fraud are not career criminals and are often trusted staff with no past criminal history. Usually, something in the person's life motivates or prompts him or her to commit fraud. The situation could be lifestyle related, such As lavish spending or addiction problems, or could be outside of the person's control, such as a family member's catastrophic illness or job loss. These motivations can make an honest person turn to fraud. Often, people are embarrassed to find themselves in the situation and consider the circumstances to Be un-shareable with others in the organization. (Kuwik, 2013)



(Suggestions, 2017)

- Rationalization – the mindset of the fraudster that justifies them to commit fraud:

  People who are contemplating fraud must also be able to justify their actions. Rationalizations can include feelings of over- work and lack of appreciation, a belief that they are acting in the best interest of their family, or intent to make restitution when they get back on their feet. These rationalizations allow fraudsters to knowingly and intentionally commit a dishon- est act while still functioning in the workplace. (Kuwik, 2013)

- Opportunity – the situation that enables fraud to occur (often when internal controls are weak or nonexistent). (Johannes C. Scholtes, 2013)

  In many fraud cases people wonder, "Why did they think they could get away with it?" The reason behind this is that, like pressure, the opportunities to commit fraud can also be simply perceived rather than real. If someone feels both pressured and can rationalize fraud, it is not too hard for them to create an available opportunity. (Gottlieb, 2014)

The fraud triangle is where three factors above meet. It is at these points that fraud is very likely to be committed. Perceived opportunity is the "what" that is in any organization that allows a person to commit fraud, this can be summed up as follows:

A perceived opportunity

\+

Ability to conceal the fraud

\+

Avoidance of it being discovered

\+

Avoidance of it being punished

=

Opportunity

(Wordpress.com, 2017)

Chidnand Harripersad
Student Number: 2347
Assignment: 3

Case Study:

i. If the trader has actually committed the crime what kind of crime it is?

White-collar crime refers to a financially motivated nonviolent crime committed by business and government professionals. It was first defined by sociologist Edwin Sutherland in 1939 as "a crime committed by a person of respectability and high social status in the course of his occupation." Typical white-collar crimes could include fraud, bribery, Ponzi schemes, insider trading, labor racketeering, embezzlement, cybercrime, copyright infringement, money laundering, identity theft, and forgery. (Wikipeda, 2017).

False or Deceptive Advertising:

(Muteb9905, 2014)

The trader is using deceptive or false advertising which refers to advertisements that are deceptive in any material respect. An advertisement is deceptive if a reasonable consumer would find it misleading because it contains false or misleading statements or omits important information. The deception is material if the false or misleading statements or the omitted information would affect a reasonable consumer’s decision to buy or use the product or service. (Morales, 2011).

For example:
John's Auto Sales takes out a full-page ad in the local newspaper for the entire week. The primary feature of the ad is a new pickup truck, usually priced at $27,000, for $18,000. A large color photo of the truck model entices ranchers and townies alike to head into John's Auto Sales to take advantage of this spectacular deal. When consumers arrive and mention the newspaper ad, they are told that the company is no longer offering that special, but the sales associate will happily show them other good buys. This is often referred to as a bait-and-switch tactic.

John's Auto Sales has engaged in false advertising designed to lure customers onto the lot by publishing false or deceitful information. The business does this in the hope that, by luring a larger than a usual number of clients to the lot, it will experience increased sales for the week. (Dictionary, 2017)

Types of False Advertising
A company can deceive consumers through the use of many types of false advertising. The primary goal of false advertising is to increase the number of customers to the company or business, and thus increase profits. Some types of false advertising are more noticeable to consumers than other advertising schemes. Some of these deceptive practices leave consumers unaware until it is too late. (Dictionary, 2017)

- Inconsistent Comparison
- Pricing based deception
- Misleading Illustrations
- Quality or Origin deceptions

Inconsistent Comparison:
Inconsistent comparison takes place when an advertisement compares one item with another only in the areas where it is superior, omitting any features of the other item that are superior to the advertised item. This leads consumers to believe that the advertised item is the best product available. Inconsistent comparison may also describe the practice of listing competitors' prices, omitting those competitors offering lower prices. (Dictionary, 2017)

Misleading Illustrations:
Misleading Illustrations is when Illustrations in advertisements which are intended to lead consumers to believe the product depicted is what they will receive commonly appear more enticing than reality.

(Cassel, 2012)

Pictures on food packaging often include ingredients or items that are not included in the package. Adding a “serving suggestion” disclaimer on the package may help the company avoid legal issues. Misleading illustrations also come in the form of making food items look larger than they really are. (Dictionary, 2017)

Quality or Origin Deceptions:
When advertising a product, it is illegal for a company to make claims about the quality or origin of the product if the claims cannot be substantiated. It is also illegal for a company to withhold information about known defects. (Dictionary, 2017).

For example:
Bob’s Bait Shop advertises its newest line of fishing poles. In the bait shop’s weekly advertisement, the fishing pole is described as the best on the market, and the ad features a “Made in the USA” graphic, which is known to attract many buyers. In fact, the fishing poles are manufactured in China, making the bait shop’s advertisement false.

Puffery vs. False advertising:
To prove false advertising, it must be shown that the statement or representation was deceptive. False advertisement is motivated by a desire to deceive or mislead the public. On the other hand, puffery is usually a matter of opinion rather than a factual representation. The aim of puffery is simply to attract more consumers rather than to purposely deceive.

(Morales & Wittenburg, 2012)

However, the line between puffery and false advertisement can be a tricky one. Therefore, businesses that are making representations about their goods or services should take care to avoid statements that are false, deceptive, or misleading. (LaMance, 2015)

In our example, the trader provided misleading information that gives the customer impression that he had the experience of fitting luxury kitchens. He did this by providing misleading illustrations on his website, sourced from books and magazines. The trader also implies that his product is of a high standard and quality by use of specific words "pine" and infers that the items are sustainably sourced (i.e., recycled material). These words can appeal to the customer's emotions. The customer is led to believe that the trader is experienced artisan who provides high-quality products that are sustainably sourced.

ii. How can forensic expert investigate the case properly when trader could have sold goods without generating any invoices or on cash?

Taxpayers are more likely to report income received in check form than income received in cash. (Susan Cleary Morse, 2009)

Employees whose employers comply with wage reporting rules cannot cheat successfully and so such employees do not cheat. Individual business owners can cheat successfully (because no one reports much of their income to the government and because their income is hard to detect on audit) and, in the aggregate, individual business owners do cheat. The literature on income source, accordingly, applies directly to a study of evasion in the cash business sector: it predicts a high rate of evasion in the sector and identifies the sector as a, if not the, leading (Susan Cleary Morse, 2009)

Expenses generates income. One of the first stages of the audit will be to review all the current expenses business and personal of the trader.

Business:

1. Purchases.
   All purchases should be followed by a Sale. If we purchase raw material, surely these are due to orders placed and should generate a sale.Without the corresponding invoice. We know that the trader is not disclosing sales.
2. Assets:
   The trader may be sitting with a lot of new equipment and inventory without the corresponding sales or proof of finance.
3. Running expenses.
   The advertising on the website. The trader would have needed to pay hosting fees, to pay an advertising company, purchased a high-end camera, etc. Where is the source of the income to pay for these?
4. Off-setting expenses.
   The trader may pay salaries for non-disclosed employees in cash from undisclosed revenue. I remember a case where a hair salon, paid their hairstylists in cash along with a pay slip every week. Unbeknown to the hairstylists the employer only declared a minimum wage on their IRP5 certificates (Declaration of Income and taxes withheld for the year). One of the hairstylists applied for a loan, and the bank declined the loan based on the IRP5 certificate it sourced from the revenue offices. The reason for the decline of the loan, her employer, declared less than half of her actual income.
5. Inputs as expenses only.
   I remember doing the monthly Value added tax recon for a construction company. The company's expenses exceeded its sales every month. When we did the final recon for the year. The expenses vs revenue gap was glaring. The client confessed to receiving cash from certain clients without generating invoices.

Personal:

1. Properties
   We can look at the assets of the Trader. Where does he live? What card does he drive?

2. Investments
   Does the trader have any investments?

3. Lifestyle audit
   Types of clothing, food, etc.

4. Family
   Do family members have huge cash balances in Ban?
5. Significant changes
   Have there been any major changes in the Traders living conditions, social status, etc?

"How can it be tax evasion when they caught me?"
(CartoonStock, 2017)

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Student Statement:

By submitting this assignment, I confirm that this is my own work.

Student Signature	Chidnand Harripersad	Date	15/05/2017

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