



## ENHANCED FINANCIAL FRAUD DETERMINANTS: THE CCODSI MODEL

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**ABSTRACT:** *This paper aims to improve our understanding of why people commit fraud by building on existing theories. The paper looks at four popular models that explain why people commit fraud: the fraud triangle, the fraud diamond, the fraud MICE, and the fraud SCORE models. The authors believe these models need to be updated to better fit the increasing number and seriousness of fraud cases. By building on these existing theories, the authors create a new model to help us better understand the main reasons behind fraud. The authors found that the idea of integration of duty is a major factor that makes people commit fraud and conclude in the development of a model with six explanatory variables: circumstantial/situational forces, capability, opportunity, defensive reasons, self-importance thoughts, and integration of duty, all mnemonically represented by C.C.O.D.S.I. On the basis of the findings, six vital recommendations for preventing fraud were made.*

**KEYWORDS:** Fraud, Circumstantial forces, Integration of duty, Defensive reasons, Opportunity, Capability, self-importance.



## INTRODUCTION

### Background to the Study

Preventing fraud is a key goal for auditors and accountants. However, when the source of fraud is unknown, preventing it becomes very hard, if not impossible. Fraud has become a worldwide issue and is common everywhere, so no country or organisation can say they have no fraud at all.

Fraud quantity is not equal between a country and another and also between one business entity and the other. This inequality depends on how well the organisation can find and stop fraud (Mansor, 2015).

Corporate fraud is a subject that has gotten a lot of attention from regulators, auditors, and the public. External auditors are now being asked to play a big part in helping organisations stop and find fraud. Spotting fraud is difficult and requires a thorough understanding of what fraud is, why people do it, and how they can commit it and cover it up (Kassem & Higson, 2012).

In recent times, fraud has become more frequent, prompting many large organisations to bring in specialists like forensic accountants to help stop workplace and financial fraud (Mansor & Abdullahi, 2015).

Fraud and its different forms are major contributors to serious financial problems. Repeated public and private enterprise's financial crimes display that fraud and its harmful effects can cripple businesses worldwide (Cheliatsidou et al., 2023).

For any business, financial reports are crucial because they show the company's health. However, sometimes these reports are manipulated to hide fraud within the company (Sujana et al., 2019).

Many research papers talk about problems related to fraud, and most agree that preventing fraud should be the top priority. It costs less and works better to stop fraud before it happens, rather than finding it after it's already done. Often, when fraud is found, the money is gone, or it is very hard to get it all back. Also, investigating fraud is expensive and takes a lot of time, especially when it involves big, international companies. But if we focus on preventing fraud, we can save all the money, time, and effort that would be spent on fixing the damage, catching the person who did it, and trying to get the money back (Mansor & Abdullahi, 2015).

Some researchers have done a good job by creating theories that help explain why fraud happens in places where money moves around, like in businesses and communities. These researchers include Cressey (who made the fraud triangle theory), Wolfe and Hermanson (who made the fraud diamond theory), Kranacher and others (who made the fraud MICE theory), Vouras (who made the fraud SCORE theory), and more.

So, to add to what we already know about what causes fraud and how to stop it, this paper will use the ideas from these existing theories to create a new model. This new model will explain the main reasons for fraud and suggest ways to prevent or reduce it. This can help companies, individuals, and governments avoid financial losses.



## **Statement of Problem and Gap Identified**

Ideally, with the amount of available models of fraud in theory, the policemen, auditors, forensic accountants, and other parties responsible for eradicating economic and financial crimes in the nation should have understood, to a greater extent, the causes of fraud and developed a holistic strategy of fraud prevention that will cause fraud perpetrators to reduce to a large extent. Surprisingly, the number of fraud perpetrators keeps on multiplying; fraud cases continue to emerge and soar globally while defrauded parties continue to suffer loss. This adverse deviation of actual from ideal signifies a greater problem, therefore calling for the need to further enhance some of the existing models and tailor their elements to be at par with reality. Although existing models of fraud state and justify reasons why people commit fraud, there is a high ignorance of the internal control concept called segregation of duty, and none of the models think of incorporating its opposite concept (integration of duty) as a standalone variable into the existing model. As a result, this study seeks to fill this gap by borrowing ideas from an internal control concept in auditing in order to develop a new model that incorporates the integration of the duty concept as not an instance determinant of fraud but as a standalone component.

## **Research Objectives/Purpose**

Primarily, within a proposed framework, the research intends to state the factors responsible for fraud perpetration in an entity where money is involved. The specific objectives are to:

1. Develop and propose a new model of fraud determinants with reference to some existing theories of fraud.
2. Develop and explain the concepts involved in a conceptual framework derived from the proposed model.

## **Research Significance/Importance**

This research has two dimensions of significance, as presented below:

1. First is the significance of the study in terms of its stated objectives. Therefore, it will assist in developing and proposing a new model of fraud determinants with reference to some existing theories. It will also assist in developing and explaining the concepts involved in a conceptual framework derived from the proposed model.
2. Second is the significance of the study to the firm, individual, and the government. Here, the study will shed light on the causes of fraud, therefore serving as a guide for the firm, individual, and the government to identify potential causes and induced preventive measures.



## LITERATURE REVIEW

### The Notion of Fraud

Fraud is a concept that many people can understand, but its signs are often hard to spot until it's too late (Vousinas, 2019). Fraud happens when someone deliberately and knowingly misuses shared resources (Sujana et al., 2019). According to Kalubanga et al. (2013), fraud involves hiding the truth, being careless, or distorting facts to (1) get an unfair benefit, (2) help someone take valuable things, or (3) cause harm. Additionally, any actions, failures to act, or hiding information that deceives others, leading to their disadvantage, misrepresentation, or hiding important facts about transactions, done with the knowledge that they are false, or intentionally hiding the truth or mistakes to deceive others, causing them to suffer a loss (Manurung & Hadian, 2013).

Fraud is when someone intentionally does things to trick another person, causing the victim to lose something while the person doing the fraud gets something illegally. It is a dishonest and illegal act where one person purposely takes advantage of another by lying or hiding important information. Fraud doesn't happen by accident; it is a well-thought-out crime meant to go unnoticed. Since it involves using a position of trust for personal benefit, fraud is seen as a type of dishonest behavior (Soneji, 2022). One of the main objectives of auditors and accountants is to avoid fraud. However, it will be difficult, if not impossible, to avoid fraud when the source is unknown.

### Types and Classification of Fraud

The Association of Certified Fraud Examiners states that fraud falls into three main types: corruption, misappropriation of assets, and financial statement fraud (Association of Certified Fraud Examiners, 2012). From past cases, there are many ways of committing fraud, from complex cybercrimes to modest breaches of trust. Researchers have classified fraud according to the approaches used by the committers, despite the use of different tactics by these criminals in various cases. Some of the approaches include embezzlement, defalcation, overpowering, falsifications and power abuse, illegal loans, manipulation, ghost borrower creation, impersonation, and fake payments. They keep talking about dishonest use of company papers, making up fake accounts, pretending to collect money that was not really collected, changing and messing with receipts, making up numbers in the records, overcharging or charging too much, raising the numbers in the reports, playing with the company's account books, creating and changing fake contracts, making extra copies of checkbooks, using computers and the internet to cheat, wrongly using and purposely messing up temporary accounts, and saying there is a loss when there is no loss (Anyanwu, 1993; Ajide & Ezi, 2000; Okafor, 2004; Adeniyi, 2004).

Different types of fraud include bribery and extortion, stealing money or property, using public resources for personal gain, charging too much or too little for something, disbursement of salaries and benefits to ghost workers and retirees, and paying for things that were never provided or done. Fraud as legal mischief, fraud by management, and corporate fraud are other types of fraud. Corporate fraud, in particular, refers to any fraud committed by or against a business corporation (Singleton, Bologna, Lindquist, & Singleton, 2006).



## METHODOLOGY

### Theoretical Foundation/ Background

The theoretical model proposed in this study was created by combining four key theories about fraud from earlier researchers and experts who have done excellent work in developing models and frameworks to explain what leads to fraud. The first person to create a framework for understanding the causes of fraud was Cressey in 1953. Cressey's model, called the fraud triangle, identified three key factors that cause fraud: (a) rationalisation, (b) opportunity, and (c) pressure. After that, Wolfe and Hermanson (2004) built on Cressey's work and created the fraud diamond theory. By adding to Cressey's three factors, a new component called (d) capability was introduced. So, they explained that (a) pressure, (b) opportunity, (c) rationalisation, and (d) capability are the reasons people commit fraud.

Kranacher et al. (2010) introduced the fraud MICE theory, which is different from the fraud triangle and fraud diamond theories. Their approach led to a new theory that identifies four main reasons for fraud: (a) Money; (b) Ideology, (c) Coercion; (d) Ego. Although the MICE model doesn't cover all possible motivations for fraud and some motivations can fit into multiple categories, it's easy to remember (Vousinas, 2019).

Vousinas (2019) developed a fourth theory after examining the underlying reasons that make people commit fraud. To better understand the key factors that lead to fraud, the author built on existing theories and introduced the S.C.O.R.E. model.

The theorist created a simple acronym, SCORE, to explain why people commit fraud. Vousinas (2019) based this on two ideas from the fraud triangle theory by Cressey from 1953: (a) opportunity and (b) rationalisation. Additionally, Vousinas included (a) capability and (b) stimulus from the fraud diamond theory by Wolfe and Hermanson (2004). The last part of the SCORE model is ego, based on a theory by Kranacher and others from 2010. Vousinas (2019) explained that the main reasons people commit fraud are (a) stimulus, (b) capability, (c) opportunity, (d) rationalisation, and (e) ego.

The authors of this study considered the frameworks put forward by Cressey (1953), Wolfe and Hermanson (2004), Kranacher et al. (2010) and Vousinas (2019) to be important theoretical advancements in the field of fraud theories. The creation of new and improved theories of fraud was made possible by the basis of these four theorists, which made it simpler for present authors to choose appropriate premises for their claims. The current authors built upon the four theories to create a theoretical framework that is a more sophisticated synthesis of the four theorists' ideas.

### Theoretical Model Development Approach

When creating this framework, the authors took three important steps. First, they looked for and downloaded useful materials. These materials are publications or literature about fraud theories. They chose these materials because they are the only ones that can give the authors helpful information to create a model for understanding fraud. Next, the authors read these materials, and while doing so, they wrote down important details about the theories they used as their theoretical foundation. These details are shown in the table below:

**Table 1: Details about theories used as theoretical foundation of proposed model**

Fraud Theorists	Proposed Theory/ Model	Elements/Explanatory Variables
Cressey (1953)	Fraud triangle theory	<ul style="list-style-type: none"> <li>▪ Pressure</li> <li>▪ Opportunity</li> <li>▪ Rationalisation</li> </ul>
Wolfe and Hermanson (2004)	Fraud diamond theory	<ul style="list-style-type: none"> <li>▪ Pressure</li> <li>▪ Opportunity</li> <li>▪ Rationalisation</li> <li>▪ Capability</li> </ul>
Kranacher et al. (2010)	Fraud MICE model	<ul style="list-style-type: none"> <li>▪ Money</li> <li>▪ Ideology</li> <li>▪ Coercion</li> <li>▪ Ego</li> </ul>
(Vousinas, 2019)	Fraud SCORE model	<ul style="list-style-type: none"> <li>▪ Stimulus/incentive</li> <li>▪ Capability</li> <li>▪ Opportunity</li> <li>▪ Rationalisation</li> <li>▪ Ego</li> </ul>

Using tables helps us easily see the main parts of each theory about fraud and compare them. After listing the current theories in a table, the researcher's next step is to create a type of model that has special features. The special features of a theory mostly come from how the theorist makes it. The process used to create the theory includes (1) taking at least one idea from each theory.

Pressure, Opportunity, and Rationalisation come from the fraud triangle; capability is from the fraud diamond, and ego is from the MICE and SCORE models of fraud. (2) The ideas chosen (excluding opportunity and capability) were redefined to improve the understanding of each concept. (3) A new concept, Integration of Duty, was added to the five existing concepts to create a unique framework. (4) All six concepts, both existing and newly introduced, were combined and reorganised to form the proposed fraud model.

## RESULTS/FINDINGS

### The Developed and Proposed Fraud Model

This theoretical development approach birthed a model in which fraud is a function of six factors, as expressed below:

$$\text{Fraud} = a + b_1 (\text{circumstantial/situational forces}) + b_2 (\text{capability}) + b_3 (\text{opportunity}) + b_4 (\text{defensive reasons}) + b_5 (\text{self-importance thoughts}) + b_6 (\text{integration of duty}) + u.$$

The model is such that “a” represents the model intercept,  $b_1$  to  $b_6$  represent the coefficient of each stated determinant of fraud, and “u” represents the error term. The researchers adopted a theoretical approach and found six important concepts as factors responsible for financial fraud. These are:

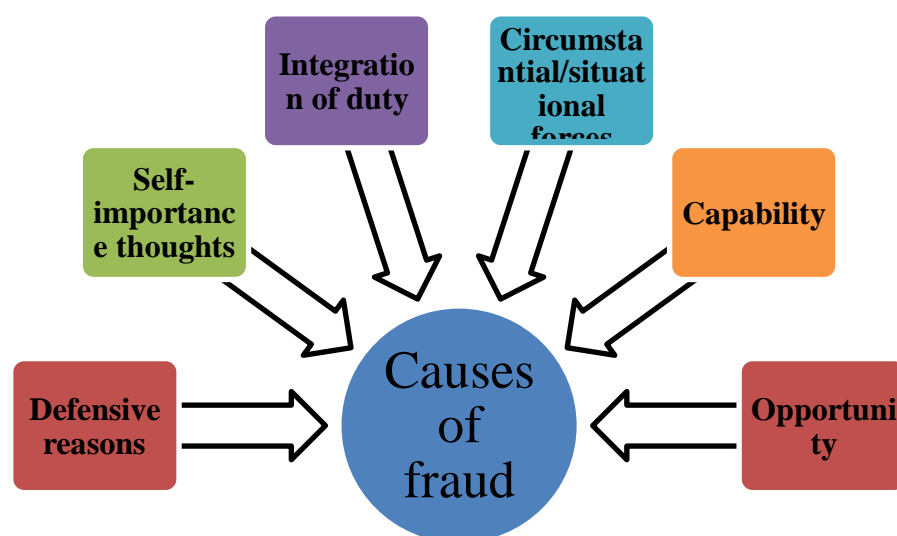


1. **Circumstantial/situational forces (pressure)**
2. **Capability**
3. **Opportunity**
4. **Defensive reasons (rationalisation)**
5. **Self-importance thoughts (ego)**
6. **Integration of duty**

The acronym given to the above-stated causes of fraud is CCODSI. In short, the proposed model argues that fraud occurrence or perpetration in any organisation is caused by six basic factors, as highlighted above. Unlike the existing fraud models that failed to see the integration of duty as a standalone concept, the proposed model seeks to narratively account for how the integration of duty causes fraud occurrence or perpetration in an organisation by establishing a functional relationship between fraud and its causes. Therefore,  $\text{Fraud} = f(\text{C}, \text{C}, \text{O}, \text{D}, \text{S}, \text{I})$ , where “f” represents “function of”. According to this proposed model, when circumstantial forces, capability, opportunity, defensive reasons, self-important thoughts, and integration of duty are present, there is a high tendency for fraud to continue to occur in an organisation. Further arguments from the model are discussed in the discussion section of this paper.

### Conceptual Framework from Proposed Model

Figure 1 is a conceptual framework showing the relationship between the dependent variable (fraud) and the six independent variables in the CCODSI model.



**Figure 1: Six causes of fraud/factors responsible for fraud**



## DISCUSSION

Below is the explanation/narrative discussion of the proposed C.C.O.D.S.I model six components:

### **Circumstantial/Situational Forces**

The term "circumstantial/situational forces" refers to important conditions or situations that make someone more likely to commit fraud. Different situations can create pressure on people, whether it is related to their job or personal life (Rustiarini et al., 2019). This is similar to the "pressure" part of the Fraud Triangle. The pressure people feel is what leads them to act unethically. This is usually the first reason someone starts thinking about committing fraud (Mansor, 2015). Every person who commits fraud feels some kind of pressure to do so (Abdullahi & Mansor, 2015a). The pressure might come from personal issues, like money problems or addictions, or from the workplace. Managers or other employees might be offered rewards or feel forced to commit fraud.

For instance, if pay or promotions are largely based on personal, departmental, or company success, people might be tempted to cheat or push others to do the same. This pressure can also come from investors, banks, or other financial sources who have overly high expectations (Gupta, 2015). When talking about fraud, "circumstantial/situational forces" means external situations or events that create stress and lead someone to commit fraud. Financial troubles, personal problems, or outside influences add to this stress. These influences are typically related to specific conditions or situations in a person's life.

### **Capability**

Capability means having a role that allows someone to do things their way with little or no oversight. When it comes to fraud, it is the job or rank that lets someone commit fraud but makes it hard for internal auditors to catch them. For example, someone in charge of managing business inventory without much supervision can easily use that inventory for personal gain. Likewise, someone in charge of cash management, using their own rules, can steal money without being noticed. A person's job or role in a company can give them the chance to commit fraud that others might not have (Ruankaew, 2016).

Fraud can happen when someone with a significant role in a company has the ability to commit it (Akbar, 2017). Kassem and Higson (2012) said that to commit fraud, the person doing it must have the skills to use the opportunities they have. Vousinas (2019) also said that many big frauds, especially those involving financial statements, wouldn't happen without the right person with the right skills carrying out the details of the fraud. Wolfe and Hermonson found key traits in people who can commit fraud. These traits include (a) having a powerful position in the organisation; (b) being smart enough to exploit the accounting and internal control systems; (c) having a strong ego and confidence; and (d) being able to handle stress well (Sujeewa et al., 2018).

### **Opportunity**

Opportunities to commit fraud can arise even when people do not intend to do so. These situations can be created by factors like weak regulations or insufficient oversight, making it easier for individuals to exploit the system. Rae and Subramaniam (2008) said that if someone





who might be tempted sees a chance because of weak or bad rules and they have the power to use that chance, they might commit fraud. These opportunities are connected to how well the organisation can be trusted, both inside and outside the company.

The absence of accountability led to a lot of corruption. Internal accountability involves the organisation's internal control system, code of ethics, hiring processes, fraud detection methods, audit procedures, and punishments for fraud. In theory, stricter penalties could lower the number of fraudulent acts, but it might also make legal officials ask for bigger bribes (Mahmood, 2005).

### **Defensive Reasons**

These are excuses a scammer uses to make people believe that the scam is okay. This kind of thinking is connected to the "rationalisation" part of the Fraud Triangle. In the Fraud Diamond theory, rationalisation is the third element, which means finding a reason to believe that an action is normal and morally okay in society (Sujana et al., 2019). Since many scammers see themselves as regular, honest people, not criminals, they need to come up with reasons to make the act of scamming seem more acceptable to themselves (Vousinas, 2019). When someone commits fraud, they frequently use defensive justifications (such as the perpetrator's assertion that his wife is unwell and he doesn't have the money to pay the medical expenses, which prompted him to conduct fraud) to shield their acts. Some persons also rationalise their fraudulent behavior by reframing their definition of wrongdoing to exclude their own actions (Vousinas, 2019). They may make sense of their actions in light of their own moral principles. Occasionally, fraudsters' packaged words of sympathy can be linked to defensive motivations for their actions.

The fraud detector or an organisation's management can feel responsible for revealing the perpetrator's cunning behavior if they do not exercise caution. In other words, manipulative tactics may be used by some fraud perpetrators to divert attention or sympathy away from their fraudulent activities. The people in charge of detecting fraud may, in fact, feel guilty or blamed for not stopping the fraud sooner if there are gaps in the organisation's internal controls or monitoring.

### **Self-Importance Thoughts**

The term "self-importance thoughts" (SIT) means believing you are very important in society and will do whatever it takes to keep that status. This idea suggests that if people feel they are important, they might use dishonest ways to get money if they think financial problems would lower their social status. SIT is linked to the concept of "ego" in fraud models like MICE and SCORE. The ego can also drive people to commit fraud because they are often unwilling to lose their reputation or power in front of their community or family. This social pressure can be a strong reason for engaging in fraudulent activities just to protect their egos (Vousinas, 2019).

People who feel very important about themselves might do extreme things, even using dishonest methods, to keep or improve their image in society. According to Vousinas (2019), cheating is common among narcissistic people because they are greedy, want to be in control, and are very protective of their pride, which are key reasons for fraud. Someone who is always focused on themselves, very confident, arrogant, and will do anything to succeed is the kind of person who commits fraud (Mohamed et al., 2021). Stotland (1977) suggests that a key reason



people commit white-collar crimes, which according to Weisburd and Waring (2001) are financial offenses done using a mix of cheating, lying, or working together, is because they feel superior, in control, and want to be admired by others.

### **Integration of Duty**

Integration of duty refers to the situation whereby one officer regularly performs sensitive duties that ought to be regularly performed by at least two people in a workplace. This act violates the rules of the segregation of duties. When officers' duties are integrated, there is no zero tendency that fraud will not be perpetrated by such officers. This is because the officer is left with some open opportunities to acquire more skills and experience on the job. These opportunities, when seized, can be maximised, and when maximised, they can place the officer in the position of someone who is smarter than the boss and wiser enough to beat the system for personal gain because of his or her acquired stock of experiences. Thus, the integration of duty remains a vital source of opportunity. The word opportunity in the context of fraud connotes anything that can open room for fraud to be committed. Weak internal control paves the way for opportunity, and the opportunity paves the way for fraud to be perpetrated. Instances where there is no monitoring or surveillance or when the internal controls of the organisation are weak are often connected with opportunities. This gives employees a chance to obtain personal gain through fraudulent acts (Albrecht et al., 2008; Kassem & Higson, 2012; Dellaportas, 2013). By this, integration of duty is recognised as an associate of weak internal controls and can create room for less monitoring or surveillance.

Integration of duty is the direct opposite of segregation of duty, which is a strong internal control element. When an employee's duties are integrated, there is an open window for the employee to perpetrate fraud. The thoughts of an organisation whose staff duties are integrated are that the organisation is reducing costs by using one person to regularly perform the duties that are meant to be regularly performed by two or more people. This is a wrong thought that can cripple such organisations, especially when the integration leads to fraud. Integration of duties poses the danger of improper checks and balance. For example, in a situation where the sales representative of a business center is the same person responsible for collecting cash, writing and issuing receipts to customers, and keeping or safeguarding the business sales receipt booklet, cash theft, manipulation, and false record-keeping can stem from the seller. As noted in Olowookere (2007), the division of tasks that, if combined, would allow one person to start and finish a whole transaction is one of the main methods of control. The possibility of deliberate manipulation or error is decreased, and the aspect of checking is increased when duties are segregated. Authorisation, execution, possession, recording, and, in the case of a computer-based accounting system, system development and day-to-day operations are among the functions that ought to be divided.



## IMPLICATION TO RESEARCH AND PRACTICE

Although there is no absolute elimination of fraud, reasonable elimination is guaranteed. The implication of the findings from this research is that an organisation will not stop experiencing high level of fraud when sound preventive measures are not put in place to minimise fraud as a result of circumstantial forces, capability, opportunity, defensive reasons, self-importance thoughts and most importantly, integration of duty (CCODSI) which is the concept that birthed this research. When preventive measures are put in place, there is a high tendency to reduce fraud and increase the organisation's financial health. Therefore, in order for fraud to be prevented using the CCODSI framework, vital recommendations (each tailored to a particular element of the proposed conceptual framework) are made.

## CONCLUSION

### Summary and Conclusion

A theoretical model based on the four existing models of fraud is proposed in this research. Different types of fraud motivators and their characteristics, as explained by previous theorists, are examined in this research and offer a theoretical framework that simplifies the concepts on fraud determinants. The contribution of this work to the practice of research lies in the provision of clues for novices and experienced researchers about fraud determinants and the importance of understanding the different constructs of fraud determinants and their functionality. In this research, a six-point theoretical framework that encompasses the most common causes of fraud for which preventive measures are needed to be taken is proposed. Since asking questions and finding a new line of inquiry on the basis of gaps in the prior research remains the foundation of empirical research, this research prompts the inquiry to acquire new knowledge and, therefore, represents the driving force behind the inquiry of new knowledge.

## RECOMMENDATIONS

The recommendations on the basis of findings are as follows:

1. There should be worker incentives capable of reducing the circumstantial forces that make people commit fraud in a workplace. Also, incentive packages should be designed as much as possible to match workers' expectations.
2. Although the unity of command matters, there should be a power portfolio, which means power diversification to reduce the risk of capability, which makes people commit fraud.
3. Strong internal control measures should be established for each of the business resources and should be put in place to minimise (if not completely eradicate) opportunity for fraud.
4. Workers should be equitably treated in order not to give room for any defensive reasons/rationalisation from any of the workers. In other words, all the employees should be treated without preference.



5. The management of an organisation should let the workers understand that they are all important but not indispensable. This is capable to reduce worker's feeling of self-importance/ego which is a vital element in the proposed model.
6. The internal control concept of segregation of duty should not at any time be discarded. Therefore, it is recommended that workers duties should be separated instead of being integrated. Doing this has the potential to minimise fraud perpetration.

## FUTURE RESEARCH

It is hoped that the proposed framework will provide researchers with a ground to develop testable hypotheses based on the proposed model to examine the causal connections between the circumstantial/situational forces, capability, opportunity, defensive reasons, self-importance thoughts, and integration of duty factors to fraud occurrence.

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