HOW CAN NEW FRAUD COMBINATION THEORY HELP FORENSIC AUDITORS AND EXTERNAL AUDITORS IN FRAUD RISK ASSESSMENTS?

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Abstract

The International Standards on Auditing (ISA) 240 requires auditors to assess the risk of material misstatements due to fraud. The ISA (240:4) further notes that the three factors of the Fraud Triangle theory propounded by Donald Cressey should be incorporated into the audit plan. It appears that auditors' knowledge and understanding of fraud is limited due to inadequacies of ISA 240. This article considers a theoretical review of other relevant fraud theories, literature was reviewed and the researchers recommend that the robust new fraud combination theory should greatly assist forensic auditors and external auditors to identify and assess fraud and perform effective fraud risk assessments. This study significantly contributes to the current body of knowledge by introducing the New Fraud Combined Theory, a consolidation of all the fraud models and contributory fraud risk factors for fraudulent activities enable external auditors and forensic practitioners to effectively perform fraud risks assessments (FRAs) robustly. This research will guide researchers to further research on the subject matter.

Keywords: New Fraud Combination Theory, Fraud Risk Assessments (FRAs), Red Flags, fraud risk indicators, International Standards on Auditing (ISA), External Auditing and Forensic Auditing.

INTRODUCTION

The Chartered Institute of Management Accountants (CIMA) (2005:8) publication entitled *Risk management cycle* highlights seven strategies and steps in this regard: (i) establish a risk management group and set goals; (ii) identify risk areas; (iii) understand and assess the scale of risk; (iv) develop a risk response strategy; (v) implement the strategy and allocate responsibilities; (vi) implement and monitor the suggested controls; and (vii) review and refine the process and undertake it again. Fraud risk assessments (FRAs) assists in preventing, protecting a compony against fraud and it is highly used by auditors to assess whether the controls implemented protect companies against Act. Even though, FRA performed by auditors is crucial for entities, several researchers have determined that auditors find it challenging to assess and identify fraud within a company due to the lack of sufficient knowledge on how best to effectively and successfully identify fraud risk factors in entities. The ISA (240:4) notes that, the three factors of the Fraud Triangle Theory propounded by Donald Cressey should be incorporated into the audit plan.

The fraud triangle theory explains the circumstances under which trusted persons become trust violators. Murphy and Free (2016) note that the first side of the triangle represents motive or pressure to commit fraudulent activities; the second side stands for perceived opportunity and the third side represents the rationalisation. Huber (2017) states that opportunity occurs when the employee is presented with a chance to commit fraud, and he or she perceives that there is little or no possibility of being caught. Rationalisation occurs when an employee feels justified in committing fraud, perhaps because of real or perceived slights, and pressure (non-shareable financial need) is the first leg that motivates a person to commit fraud. A severe financial problem may lead to a person committing an illegal act. However, critics of fraud triangle argued that even though fraud triangle factors assist auditors to identify and assess the type of fraud an individual is likely to commit when there are ineffective or missing internal controls, the theory alone is not an adequate tool for assessing fraud risks in entities. This is because some other crucial variables and factors are ignored. If theoretically rigorous research is not conducted then the fraud risk assessment within auditing community may suffer. Therefore, this study aims to fill up this research gap by performing a theoretical review which extends debate on the fraud theories to provide an insight on fraud risk assessments. Hence, this article explains New Fraud Combination Theory and its significance in helping forensic auditors and external auditors in fraud risk assessments. The article also seeks to assess the new fraud combination theory that should be considered by forensic auditors and external auditors in assessing fraud risks. The article adopted the secondary data through internet, journal and articles and literature review. The secondary data was gathered using publicly availed evidence mainly using google scholar search engine. This study significantly contributes to the current body of knowledge by introducing the New Fraud Combined Theory, a consolidation of all the fraud models and contributory fraud risk factors for fraudulent activities enable external auditors and forensic practitioners to effectively perform fraud risks assessments (FRAs) robustly.

Khamainy et al. (2021) established a strong correlation between fraud occurance and fraudsters capabilities. Devi, Widanaputra, Budiasih, and Rasmini (2021), found positive relationship between the elements of fraud pentagon model and fraud risk assessments but negative relationship between rationalisation and fraud risk assessments. Fitriyah and Novita (2021), found strong governance has a positive and statistically significant impact curbing fraud risks. Saluja et al. (2021), showed positive associations between identifying the areas with the highest risks fraud and prtection of entities from fraud occurance and Mohamed et al. (2021), found a mixed evidence. Hovwecer, Kagias et al. (2021), found that components of fraud triangle .have some negative and significant impacts of the occurrence of fraud risks. Despite a broad concensus that fraud triangle theory is crucial tool for fraud risk assessments, empirical investigaton has led to contradictory (Fitriyah and Novita, 2021, Owusu et al., 2021, Utami et al., 2019)

THEORETICAL FRAMEWORK

The connection between the International Standards on Auditing and Fraud Risk Assessments (FRAs)

The ISA (240:4) notes that, the three factors of the Fraud Triangle Theory propounded by Donald Cressey should be incorporated into the audit plan. Two types of fraud, asset misappropriation and financial statement fraud, are of importance to auditors (ISA, 240:3). The ISA (320:3) also cites corruption and material misstatement. Jackson and Stent (2010:16) note that common financial crimes in developed and developing countries include asset misappropriation, financial statement fraud and corruption. Seven essential pillars are included in the ISA laws and regulations that are applicable to forensic auditors and traditional auditors in assessing fraud risks and gathering irrefutable evidence. The relevant standards are: (1) ISA 200 (Chapters 1 to 5), which deals with the need for an independent auditor and such auditor's adherence to the ISA, (2), ISA 240 (Chapters 1 to 5), which covers auditors' responsibilities relating to fraud in financial reports, ISA 315 (Chapters 1, 4, and 5) that sets out auditors' responsibilities in identifying and assessing the risk of material misstatements (RMM) by understanding the entity and its business environment (to recognise, measure, present and disclose financial information, auditors use essential assertions such as existence and occurrence, completeness, accuracy, cut off, proper accounts classification, right and obligations, valuation, and disclosure or presentation), ISA 320 (Chapter 3), that deals with materiality in planning and performing audits, ISA 330 (Chapter 4), that covers auditors' responses to assessed fraud risks, ISA 500 (Chapter 5), that describes the audit evidence (auditors obtain sufficient evidence through inspection, observation, external confirmation, recalculation, performance and inquiry), and ISA 520 (Chapter 4), which outlines the analytical procedures (vertical, horizontal and operating ratio analysis in assessing and detecting fraud) (IFC, 2009).

However, Eze (2019) argues that auditors are not suitably equipped to identify, assess, and detect asset misappropriation, corruption and financial statement fraud because they use their judgement and make estimates and their major focus is not to identify fraud. It is thus recommended that all entities engage forensic auditing services as a strategic tool to address all types of financial and economic crimes. Forensic auditors are involved in different types of investigations and they adopt different strategies and procedures to address specific investigations. Otherwise, auditing and accounting firms (independent auditors) should provide extraordinary services besides mandatory audits.

Crain et al. (2019) found that auditors experience major problems in detecting, preventing and responding to fraud. They thus conclude that a forensic audit is a more appropriate response to this scourge as forensic auditors' approaches and strategies never assume that the client has complied with the IFRS and accounting policies and procedures, or that an audit check will lead to the discovery of fraudulent activitiesKnežević (2015:33) highlights key differences between external auditing and forensic auditing which are set out in Table 1 below.

Table 1

Key differences between external auditing and forensic auditing

Elements of differences	Forensic Audit	External
Legislation	Professional regulation	Professional and legal
Objective	Deterrence, prevention, detection, mitigation, and investigation of fraud	Expressions of independent, professional and competent opinions on truthfulness, correctness and accuracy of financial statements
Limitation	Not limited by external audit standards and can perform professional activities outside the standards	Limited by professional standards beyond which it does not check further.
Period of activity	No specific timeline, activity lasts until the fraud is discovered	Expression of opinion on the financial statements for one financial Year
Materiality	It is not important because it determines amount of damage of fraud	Very important
Investigation	One of the main activities	Does not investigate
Methodology	Investigate every financial transaction which is connected to fraud	Based on sampling method
Reporting	Specialised report containing the elements of the offense of fraud and is intended for legal proceedings and there are no generally accepted standards prescribed	Provides independent, professional and competent opinion in the form prescribed by International Auditing Standards
Method of detecting fraud	Alert, doubt, request the client and other ways	In the normal course- plan review
The court proceedings	Forensic auditor is required to as a witness in a court in the role of expert	An expert auditor may be a witness in court
Obligation	It is not a legal obligation	It is mandatory

Source: Adapted from Knezevic (2015)

Oyedokun and Emmanuel (2016:32) drew an analogue between fraud examination, external auditing and forensic auditing which is presented in Table 2 below.

Table 2

Analogue between external auditing, fraud examination and forensic auditing

Characteristics	External auditing	Fraud Examination	Forensic auditing
Time perspective	Historical	Historical	Future and historical
Primary focus	Periodic	Reactive	Proactive and ongoing
Investigation scope	Narrow	Narrow	Broad ranging
Main work is	Audit opinion	Fraud case report	Forensic audit report
Main responsibility is to	Company and public	Defrauded party	Principal or third party
Guidelines	Rules-Based	Principles-based under audit rules, it is rules-based	Principles-Based
Purpose of the report	Ensure GAAP is followed	Identify the perpetrator of fraud	Fraud risk assessment and strategic services
Professional stance	Non-adversarial	Adversarial	Adversarial and non-adversarial
Techniques	Substantive and compliance with procedures	Fraud examination techniques	Analysis of past trends and substantive or in-depth checking of selected transactions – as it proactively integrates data forensic analytics (DFA) and computer forensics
Off-balance sheet items	Used to vouch arithmetic accuracy and compliance with procedures	Specific reviews	Regularity and propriety/ contracts are examined
Adverse findings if any	Negative opinion or qualified opinion	-	Legal determination of fraud and naming person behind such fraud

Source: Adapted from Oyedokun (2016:32).

Fraud risk factors, fraud risk indicators, and variables

The literature notes that identification of and appropriate responses to risk factors assists auditors to identify, detect, deter, preventing, and investigating financial statement fraud. This section examines risk factors relating to financial statement fraud, which is a major issue in the accounting field. As noted previously, Srivastava et al. (2017) linked significant fraud risk factors to significant fraud risk indicators. Understanding the key factors that influence fraud will give forensic auditors insight into why it occurs. The fraud risk factors and fraud risk indicators are presented in Table 3 below.

Table 3

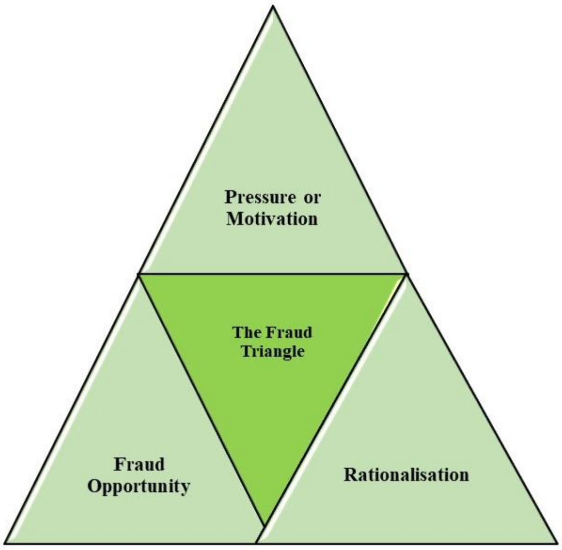
Fraud risk factors and fraud risk indicators

Fraud Risk Factors	Fraud Risk Indicators
Pressure	Financial stability: Threats to business financial stability.
	Financial Pressure: paying for lifestyle, gambling, etc.
	Non-financial: Lack of personal discipline and greed.
	Personal financial need: sudden financial problem.
	Corporate/ Employment pressure: management financial interests, unfair treatment, fear of losing one's job and low salaries.
	External pressure: Market expectations, Ego, reputation and social pressure.
	Financial targets
Fraudster's Capability	Criminal's mindset and competency to exploit accounting and internal systems.
Fraud opportunities	Ineffective supervision, poor accounting records, lack of physical controls, lack of proper authorisations of transactions and lack of audits. Lack of external oversight and monitoring, internal monitoring and control deficiencies, environmental complexity and related parties, lack of knowledge.
Rationalisation	Risks versus rewards and ideology (fraudster rationalises his or her action before he or she engages in the fraud, "I deserve more" Nobody will get hurt. Level of personal ethics, environmental ethics, need to succeed and Rule-Based accounting standards.
Weak internal Controls	Red flags can indicate fraud risk areas
Lack of internal controls	Red flags can indicate fraud risk areas
Poor governance	Red flags can indicate fraud risk areas. Internal control deficiencies, corporate compliance deficiencies and integrity deficiencies.
Weak Board of Directors	Personal position, corporate position, externally imposed expectations, Senior Board behavioural anomalies and aggressiveness towards financial reporting increase the chance of fraud risks
Collusion	Motivated offenders can collude with individuals at different levels, perceived legitimate power and perceived coercive power.
Abnormal or omitted evidence, inconsistence in accounting principles and records	Systematic difference in reports, unusual changes in financial statements, unusual missing items, unauthorised transactions, transactions recorded incorrectly, alterations that have significant effect on the financial reports, missing assets, improper asset valuation, fictious revenue and expenses, inadequate disclosures, etc.

Fraud triangle theory

According to Aghili (2019:15), the origins of the Fraud Triangle Theory can be traced to Cressey's (1973) hypothesis on the circumstances under which trusted persons become trust violators. Murphy and Free (2016) note that the first side of the triangle represents motive or pressure to commit fraudulent activities; the second side stands for perceived opportunity and the third side represents the rationalisation. Huber (2017) states that opportunity occurs when the employee is presented with a chance to commit fraud, and he or she perceives that there is little or no possibility of being caught. Rationalisation occurs when an employee feels justified in committing fraud, perhaps because of real or perceived slights, and pressure (non-shareable financial need) is the first leg that motivates a person to commit fraud. A severe financial problem may lead to a person committing an illegal act. For fraud to occur, all three elements must be present, although pressure is frequently what causes it (Schuchter and Levi, 2015, Taylor, 2011). Gee (2014) observes that managing fraud risks and fighting fraud require entities to firstly, subvert the motivation for fraud, secondly, to reduce or eliminate opportunities to commit it and, lastly, to invoke feelings of guilt about fraudulent acts. However, the Fraud

Triangle Theory does not fully describe FRM in a business environment when systems fail and stakeholders' question external auditors' failure to detect and respond to the risk of such activities. A number of scholars such as Nusantara et al. (2020), and Huber (2017) note that it does not address the extent of management's ability to commit fraud that they effectively conceal from external auditors. The services of an experienced and highly skilled forensic auditor are required to prevent such fraud risks in NGOs. The Fraud Triangle Theory is illustrated in Figure 1 below.



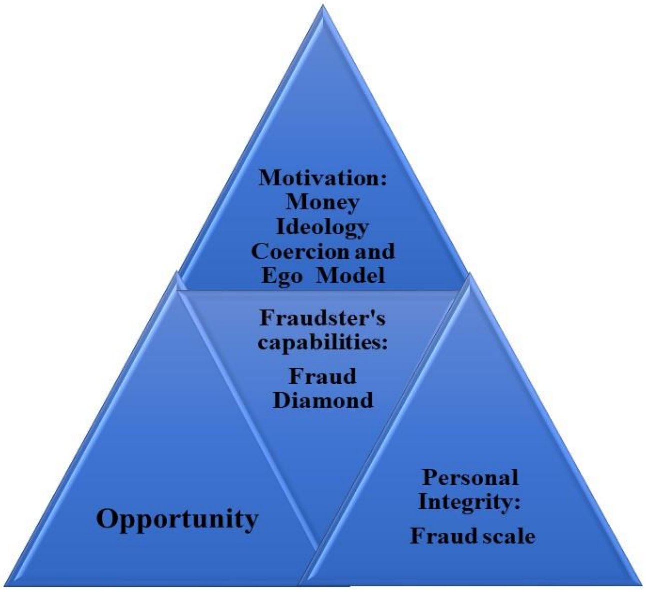
Source: Adapted from Taylor (2011)

Figure 1

Fraud Triangle Theory

The New Fraud Triangle Model

Scholars like Kassem and Higson's (2012) note that the Fraud Triangle Theory may not be able to identify each and every occurrence of fraud. They add that fraudsters' motivation should be expanded and identified by investigating Money, Ideology, Coercion and Ego (MICE). Schuchter and Levi (2015) argued for a fourth element to be added to Kassem and Higson's (2012) fraud triangle, namely, fraudsters' capabilities or competence. Epstein and Ramamoorti (2016) asserted that many multibillion-dollar frauds could not have been perpetrated had it not been for the fraudsters' capabilities. McMahon et al. (2016) add that the person with opportunity would need to be savvy enough to understand internal control weaknesses and have the capacity to overrule or ignore them. This led to the emergence of the New Fraud Triangle Theory outlined in Figure 2 below.



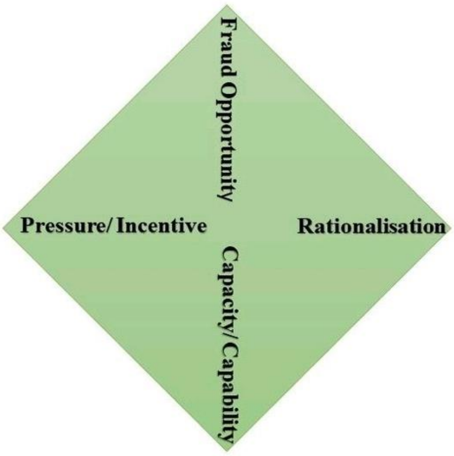
Source: Adapted from McMahon et al. (2016)

Figure 2

The New Fraud Triangle Theory

The Fraud Diamond Theory

Wilhelm (2004) proposed the Fraud Diamond Theory to explain the motivation of fraudsters. It includes opportunity, financial pressure, rationalisation, and capacity or ability as key factors that can assist forensic auditors in tracking fraudulent activities within entities. This theory is also supported by Ruankaew (2016). The authors identified six main traits or characteristics that predispose individuals to commit fraud. In the context of this study that focuses on forensic audits and FRM, the key factors captured by Ruankaew (2016) that forensic auditors have to keep in mind are: (1) the authoritative function within the entity; (2) fraudsters' intelligence and experience; (3) fraudsters' confidence; (4) fraudsters' capability and capacity to exploit accounting systems and internal controls; (5), the fact that fraudsters are perfect liars; and (6) fraudsters' capability to deal with stress. These factors assist auditors to identify the type of fraud an individual is likely to commit when there are ineffective or missing internal controls. The fraud diamond with the four factors is shown in Figure 3 below.

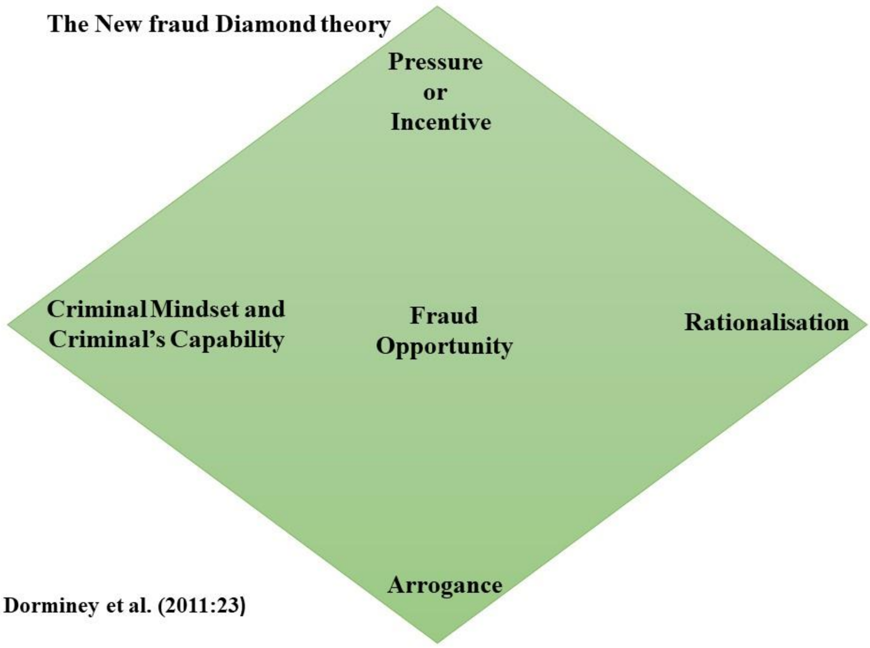


Source: Adapted from Ruankaew (2016)

Figure 3:
The Fraud Diamond Theory

The New Fraud Diamond Theory

The Fraud Diamond Theory offers valuable insights and a framework that can assist NGO leaders and practitioners to find sustainable solutions to reduce and/or prevent fraud. It can add value to fraud detection, prevention, mitigation, and deterrence. The services of an experienced and highly skilled investigator like a forensic auditor are recommended in this regard (Ruankaew, 2016). Wolfe and Hermanson (2004) and Sorunke (2016) note that, for fraud to be committed, the person must have the capacity and ability to recognise the open doorway as an opportunity and take advantage of it by walking through it. The New Fraud Diamond Theory is presented in Figure 4 below.



Source: Adapted from Dorminey et al. (2011:23)

Figure 4

The New Fraud Diamond Theory

The Fraud Box Key Model

The Fraud Box Key Model (FKBM) was proposed by Onodi et al. (2017) in response to critiques of the Fraud Diamond and Fraud Triangle Theories. According to Onodi et al. (2017), the FKBM is an expanded version of the Fraud Diamond Theory that includes a fifth perspective, namely, corporate governance. Aigienohuwa et al. (2017) assert that the Fraud Diamond Theory and Fraud Triangle Theories focus on the reasons and channels of committing fraud, with no mention of reliable and strategic measures to mitigate fraud risks. The FBKM posits that sound and effective corporate governance is a powerful preventative tool no matter how accessible the opportunity may be, or how strong the pressure or the rationale, ability, and capacity of the perpetrator (Ruankaew, 2016). Tombs (2015) notes that the model will greatly assist forensic auditors not only in identifying corporate governance fraud risks (such as abuse of the code of conduct, ethical issues or problems and moral hazard, poor leadership, and declining productivity) but also in prevention, mitigation and deterrence of fraud. The FBKM is illustrated in Figure 5 below.

Source : Adapted from Onodi, Okoye, and Egbunike (2017)

Figure 5

The Fraud Box Key Theory (Model)

The Fraud Scale Theory

The Fraud Scale Theory was presented by Albrecht, Howe and Romney in 1984 in their book *Deterring Fraud* (Sujana et al., 2019). They proposed that rationalisation in the Fraud Triangle should be replaced by personal integrity as it is particularly applicable to financial statement fraud. It should thus be considered by auditors when assessing, identifying and investigating the types of fraud that can occur. Dorminey et al. (2010) argued that, while pressure, opportunity, and rationalisation are helpful in identifying fraudulent activity, rationalisation is not observable. In contrast, personal integrity can be observed through a person's decisions as well the decision-making process, taking ethics into account. The Fraud Scale Theory is presented in Figure 6 below.

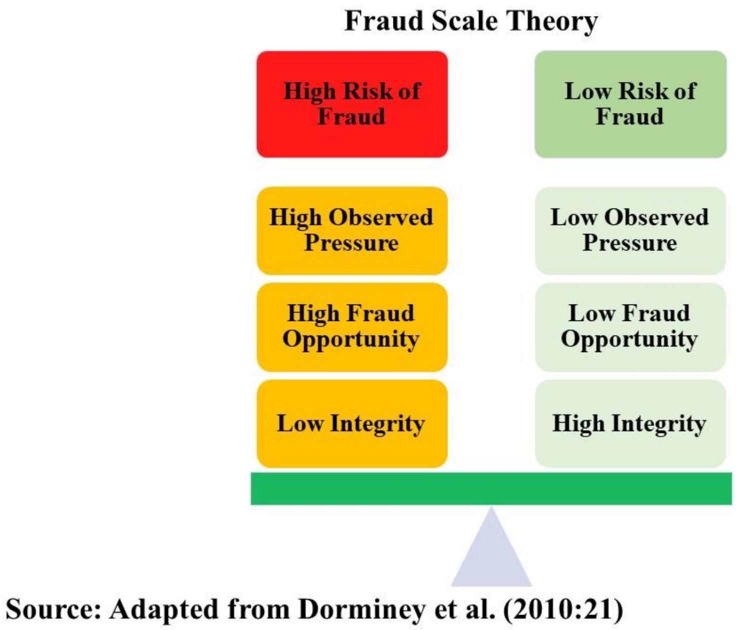
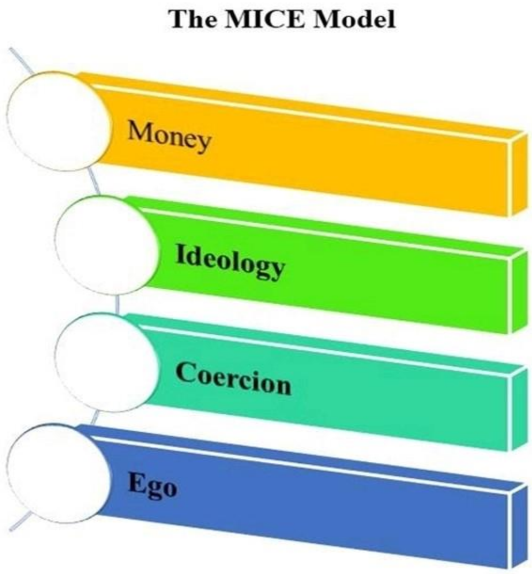


Figure 6
The Fraud Scale Theory

The MICE Model

According to Albrecht et al. (2001), and Dorminey et al. (2010) the MICE Model was propounded by Thomas as an extension of the fraud triangle to explain why people violate trust to commit fraud. Thomas posited that fraudsters are motivated by money (greed), ideology (that allows the fraudster to commit wrongs because the outcome will benefit them and is thus comparable to rationalisation), coercion (forcing someone to commit fraud against their will) and ego (power). He thus proposed that money, ideology, coercion and ego (MICE) be added to two elements of the fraud triangle, namely, pressure and rationalisation. The MICE Model enables forensic auditors to understand fraudsters' mind-set and to identify the type of fraud that is possible and the fraud risks that occur when there are weak or no internal controls. The MICE Model is illustrated in Figure 7 below.



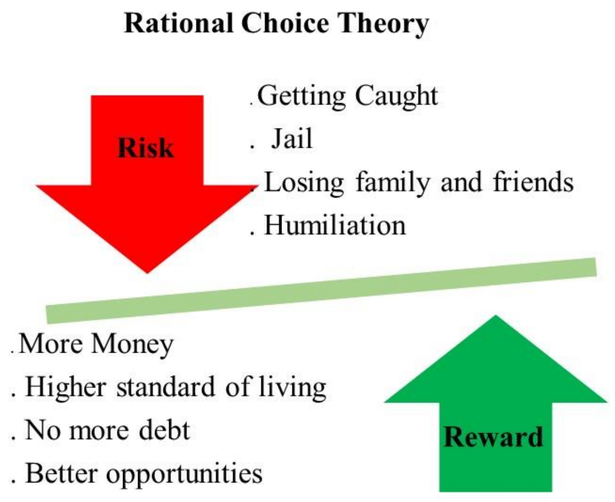
Source: Adapted from Kranacher et al. (2011:13)

Figure 7

The MICE Model

The Rational Choice Theory

The rational choice theory was proposed by Cornish and Clarke in 1986 (Cornish and Clarke, 2014:1). It posits that individuals who commit financial and economic crimes make a rational decision to do so. The authors add that such criminal acts are not committed out of desperation but rather purposely. Taylor (2011:143) concurs and notes that before committing fraud, a person will calculate the risks and compare them with the rewards. Although this theory expands on the element of rationalisation in the fraud triangle, it does not consider that people sometimes commit fraud on the spur of the moment without weighing the risks and rewards. Nonetheless, the Rational Choice Theory will assist auditors and forensic auditors to investigate and assess fraud risk. The theory is shown in Figure 8 below.

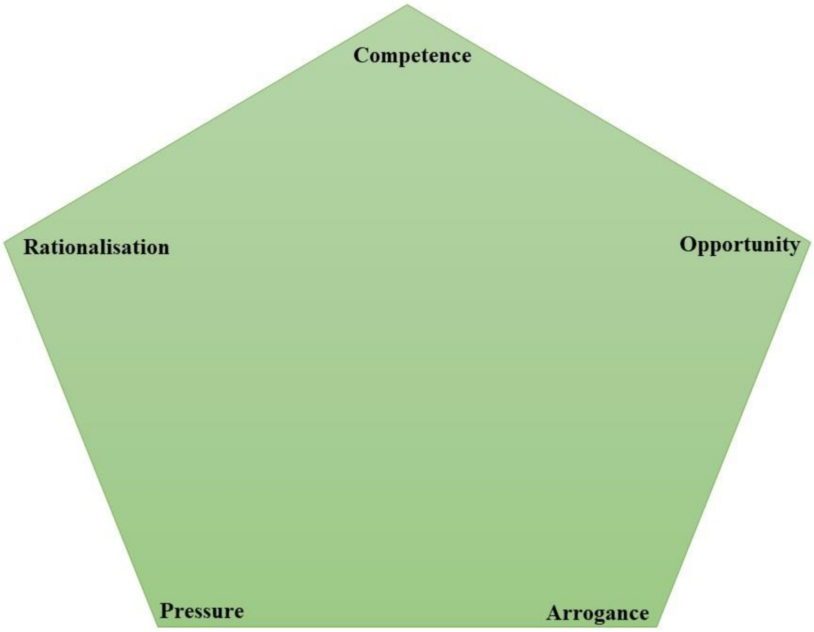


Source: Adapted from Taylor (2011:143)

Figure 8
The Rational Choice Theory

Crowe's Fraud Pentagon

Researchers have also added other elements to expand the Fraud Triangle Theory and create the fraud diamond. They have noted that insight into why a lawful employee would perform an illegal act could assist in deterring fraud. Taheri et al. (2018) added arrogance and competence to create Crowe's Fraud Pentagon. These factors refer to the employee's belief that he/she is superior to others and that rules and regulations do not apply to him/her and his/her ability to override internal controls and exploit a situation to his /her advantage. Crowe's Fraud Pentagon is outlined in Figure 9 below.



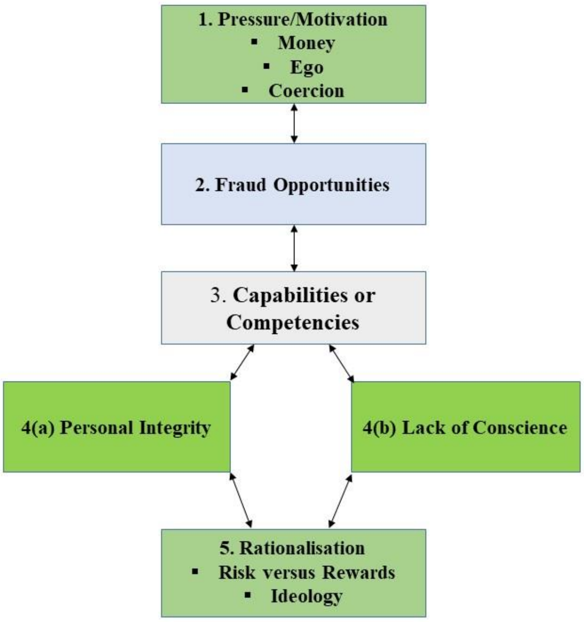
Source: Crowe Horwath (2009:3)

Figure 9

Crowe's Fraud Pentagon

The Fraud Combination Theory

All the theories discussed above have been critiqued by scholars. Cornish and Clarke (2014) asserted that they have many similarities and can, therefore, be combined. The theories have also been criticised for not considering internal and external pressure on corporate governance. Thus, it is posited that a combination theory would offer a powerful model to deter, mitigate, prevent, and detect fraud and enable forensic auditors to perform effective FRAs and FRM. The components of the theories discussed above are opportunity, motivation/pressure, capabilities/competence, integrity and lack of conscience, and rationalisation (rewards versus risk and ideology). The Fraud Combination Theory proposed by Popoola (2014) and Cornish and Clarke (2014) is presented in Figure 10 below.



Source: Adapted from Wilken (2016:34)

Figure 10

The Fraud Combination Theory

DISCUSSION

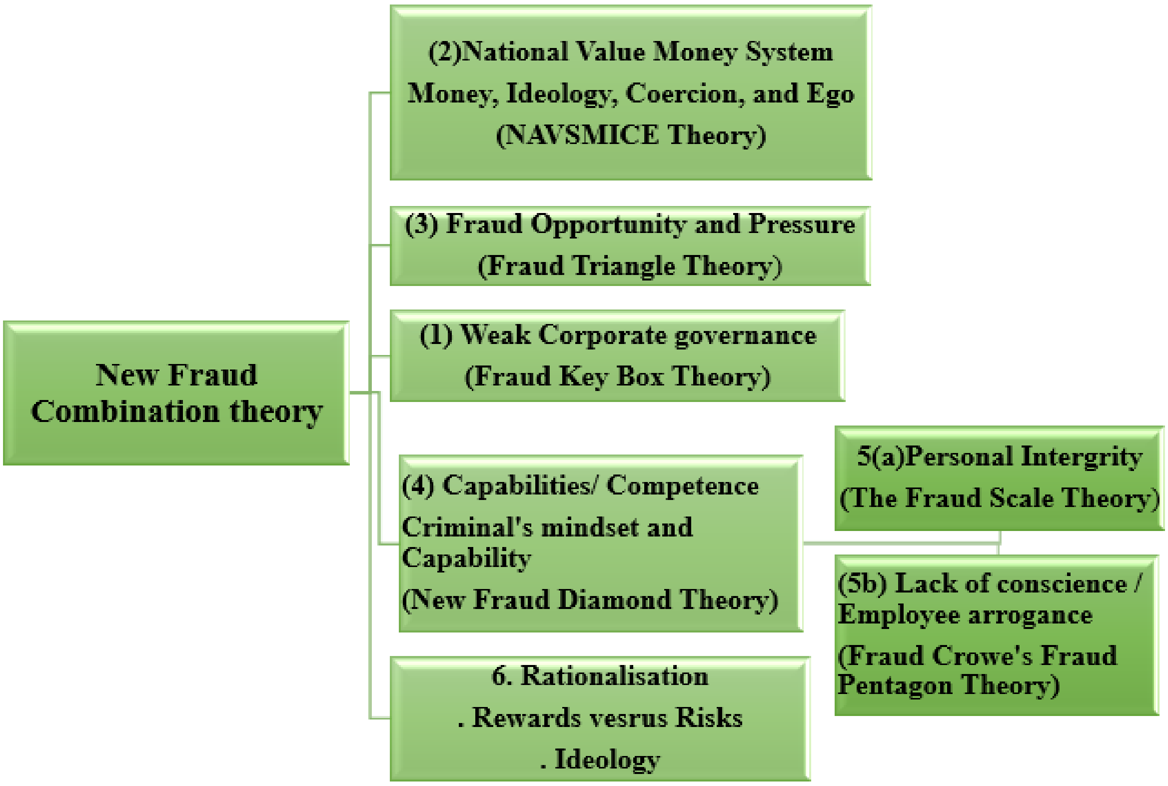
Limitations of existing fraud theories

Scholars like Kassem and Higson (2012) note that the Fraud Triangle Theory may not be able to identify each and every occurrence of fraud. They add that fraudsters' motivation should be expanded and identified by investigating Money, Ideology, Coercion and Ego (MICE). Schuchter and Levi (2015) argued for a fourth element to be added to Andrew's (2012) fraud triangle, namely, fraudsters' capabilities or competence. Epstein and Ramamoorti (2016) asserted that many multibillion-dollar frauds could not have been perpetrated had it not been for the fraudsters' capabilities. McMahon, Pence, Bressler, and Bressler (2016) add that the person with opportunity would need to be savvy enough to understand internal control weaknesses and have the capacity to overrule or ignore them. This led to the emergence of the New Fraud Triangle Theory. Ruankaew (2016) proposed the new fraud diamond theory to explain the motivation of fraudsters, in the context of this study that focuses on NGOs financial statement fraud influencers, the key factors captured by Ruankaew (2016) that forensic auditors have to keep in mind are: (1) the authoritative function within the entity; (2) fraudsters' intelligence and experience; (3) fraudsters' confidence; (4) fraudsters' capability and capacity to exploit accounting systems and internal controls; (5), the fact that fraudsters are perfect liars; and (6) fraudsters' capability to deal with stress. However, it can be criticised that the new fraud diamond theory alone is not an adequate tool for investigating, deterring, preventing and detecting fraud. Onodi, Okoye, and Egbunike (2017) suggest another model called "the Fraud Box Key Model (FKBM) in response to critiques of the new fraud diamond and fraud triangle theories which is an expanded version of the new fraud diamond theory that includes a fifth perspective, namely, corporate governance. Onodi, Okoye, and Egbunike (2017), however, argued that the Fraud Diamond Theory and Fraud Triangle Theories focus on the reasons and channels of committing fraud, with no mention of reliable and strategic measures to mitigate fraud risks. Onodi, Okoye, and Egbunike (2017) belived that sound and effective corporate governance is a powerful preventative tool no matter how accessible the opportunity may be, or how strong the pressure or the rationale, ability and capacity of the perpetrator. The authors suggest that the model will greatly assist forensic auditors not only in identifying corporate governance fraud risks (such as abuse of the code of conduct, ethical issues or problems and moral hazard, poor leadership, and declining productivity) but also in prevention, mitigation and deterrence of fraud. Taheri et al. (2018) furhter added arrogance and competence to create Crowe's Fraud Pentagon. These factors refer to the employee's belief that he/she is superior to others and that rules and regulations do not apply to him/her and his/her ability to override internal controls and exploit a situation to his /her advantage. However, all of the theories discussed above have been critiqued by scholars. For instance, Deshmukh et al. (2017) asserted that they have many similarities and can, therefore, be combined. The theories have also been criticised for not considering internal and external pressure on corporate governance. Thus, it is posited that a combination theory would offer a powerful model to deter, mitigate, prevent, and detect fraud and enable auditors and forensic auditors to perform effective fraud risks assessments (FRAs).

Relationships between the New Fraud Combination Theory and Fraud Risk Assessments

Against the background of the review of the different fraud theories, the researcher proposes the New Fraud Combination Theory to predict the existence of fraudulent financial reports. The aim is to broaden auditors' knowledge of fraud and how it occurs and to enable forensic auditors to identify, detect, deter, prevent, and investigate financial statement fraud and to respond appropriately to fraud risks. While the Fraud Combination Theory added the fourth and fifth variables (capabilities, and personal integrity, and a lack of conscience) to the fraud triangle and filled the gap in other fraud theories, on its own, it is an inadequate tool to identify, detect, deter, prevent, and investigate financial statement fraud. This is due to the fact that it ignores the critical factor of corporate governance. Thus, the New Fraud Combination Theory is proposed that adds a sixth variable, corporate governance to the five-factor fraud combination model introduced by Deshmukh et al. (2017) to detect fraud in financial statements and promote understanding of why a person would violate accounting rules and standards. It is believed that the New Fraud Combination Theory will provide a strong foundation for the development of policies, strategies, and techniques to detect fraud in financial statements.

The new theory posits that fraud is based on six factors: opportunity; pressure; the fraudster's capability; personal integrity and lack of conscience; rationalisation or risk versus rewards; and weak corporate governance (no matter how accessible the opportunity may be, or how strong the pressure, and regardless of the rationalisation and ability and capacity of the perpetrator). Strong, effective corporate governance will ensure that the fraudster's intentions amount to nothing. Thus, corporate governance is suggested as the lock that protects NGOs from all the factors that cause fraud. Therefore, the New Fraud Combination Theory incorporates all the elements of other fraud theories. It will enable forensic auditors to consider all the factors that contribute to the occurrence of fraud in order to assess fraud risks, identify red flags for fraud, and detect fraud. It is consistent with Nusantara et al. (2020) observation that a forensic auditor should think like a fraudster in order to combat fraud. The New Fraud Combination Theory is set out in Figure 11 below.



Source: Developed by the researcher (2021)

Figure 11

The New Fraud Combination Theory

CONCLUSION

The conclusion was based on the research objective. The main objective of this article was to broaden external auditors and forensic auditors' knowledge about fraud risk assessments by empirically examining the factors that enable fraud to occur. It explains fraud triangle theory and shows its significance, presents other fraud theories such as new fraud triangle, Crowe's Fraud Pentagon, Fraud Diamond and new fraud diamond, Fraud Box Key Model (FKBM), and MICE model. However, the renowned fraud theory used by ISA 240, namely, the fraud triangle has been criticised as ineffective in identifying and assessing fraud, risks of fraud since it excludes the fraudster's capability and competency, personal integrity and lack of conscience, as well as corporate governance. This study sought to fill a gap in the literature by critically and theoretically discussing evidence that both supports and contracts existing theories and empirical literature. As seen above, its aims and objective were achieved. This article contributes to the current body of knowledge by introducing the New Fraud Combined Theory, a consolidation of all the fraud models and contributory fraud risk factors for fraudulent activities enable external auditors and forensic practitioners to effectively perform fraud risks assessments (FRAs) robustly. Although reviewed literature was undertaken to achieve the pure purpose of this this article. It can be concluded that external auditors and forensic auditors need to understand and consider the range of fraud risk factors, fraud risk indicators, and red flags identified in this study in order to better understand why fraud occurs through the new fraud combination model to help them in fraud risk assessments robustly. This article also adds to the current body of knowledge and guide researchers to further research on the subject matter in areas that were not addressed in this research.

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